Welfare Reform in South Carolina: A Preliminary Analysis

by

Curtis J. Simon
Associate Professor of Economics
Clemson University

Report of the
Jim Self Center on the Future
Strom Thurmond Institute

October 1999

Acknowledgements

I wish to thank the Thurmond Institute for its support. Gui Bao provided fine research assistance. I thank Robert Becker, director of the Institute, for encouraging me to undertake the research herein. I am indebted to Bruce Yandle for discussions that were, as always, engaging and encouraging. Louis Lanier, Alicia Rigler, and Robert Tamura made numerous suggestions for improving the manuscript. Of course, I am responsible for any errors in the final product.

Executive Summary

1. The Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) of 1996 created the Temporary Assistance for Needy Families (TANF) block grant, which replaced the Aid to Families with Dependent Children (AFDC) program. By federally funding programs for needy families in the form of block grants, PRWORA severed the link between state and federal spending on cash benefits. In addition, PRWORA gave states unprecedented flexibility to create new cash assistance programs for families with children. This paper presents a preliminary assessment of the impact of welfare reform on caseload growth in South Carolina.

2. AFDC originated during the Depression as part of the 1935 Social Security Act. The incentive to work for many AFDC recipients was low in part because benefits were reduced dollar for dollar with earnings. The incentive to save was also low because families on welfare could not accumulate more than $1,000 in assets or own a vehicle worth more than $1,500. The hope is that under PRWORA, which allows states to set income and asset limits, it can be determined which combination of incentives is best able to reduce welfare dependency.

3. Highlights of welfare reform included time limits, changes in asset, limits, and family cap provisions.

Time Limits. PRWORA forbids states from using TANF funds to aid families that include an adult who has received 60 months of TANF benefits. As seen in **Table 1,** South Carolina and Georgia implemented limits stricter than those required by PRWORA.

Table 1. Time Limits in the Carolinas and Georgia

	Short Run Time Limit	Lifetime Time Limit	Benefit Termination?	Implementation Date
South Carolina	24 Out of 120 Months	60 Months	Yes	Oct.-96
North Carolina	24 Out of 60 Months	60 Months	Yes	Jul. 96; Jan. 97
Georgia	48 Months	48 Months	Yes	Jan.-97

Work Requirements. Under PRWORA, states must require parents or other caretakers to engage in work-related activities after no more than 24 months of aid. **Table 2** shows work requirements and sanctions in the Carolinas and Georgia.

Table 2. Work Requirements and Sanctions

	Immediate Work Required?	Initial Sanction Reduction	Minimum Sanction Length	Most Severe Sanction	Minimum Length, Most Severe Sanction
SC	No	100%	1 mo. after compliance	100%	1 mo. after compliance
NC	Yes	$50	3 months	$75	12 months
GA	Yes	25%	1 month	100%	Lifetime

South Carolina requires work when the individual is "determined able to engage in work," while North Carolina and Georgia require TANF recipients to engage in work-related activities immediately. South Carolina imposes a 100 percent reduction in benefits for failure to comply with its work requirements. North Carolina imposes longer sanction lengths, but relatively low benefit reductions. Georgia has a comparatively mild minimum sanction, but the most severe maximum sanction.

Asset Limits. PRWORA gives states the authority to set asset limits, including the use of TANF funds to create Individual Development Accounts, a restricted savings account that allows individuals to accumulate savings to be used for postsecondary education, home ownership, and business capitalization. These limits are shown in **Table 3**. Taken as a whole, South Carolina's asset limits are among the highest in the nation.

Table 3. Asset Limits in the Carolinas and Georgia

	TANF		**AFDC**		
	Asset Limit	Vehicle Limit	Asset Limit	Vehicle Limit	Restricted Saving Acct.
South Carolina	$ 2,500	$ 10,000	$ 1,000	$ 1,500	$ 10,000
North Carolina	$ 3,000	$ 5,000	$ 1,000	$ 1,500	n/a
Georgia	$ 1,000	$ 4,650	$ 1,000	$ 1,500	$ 5,000

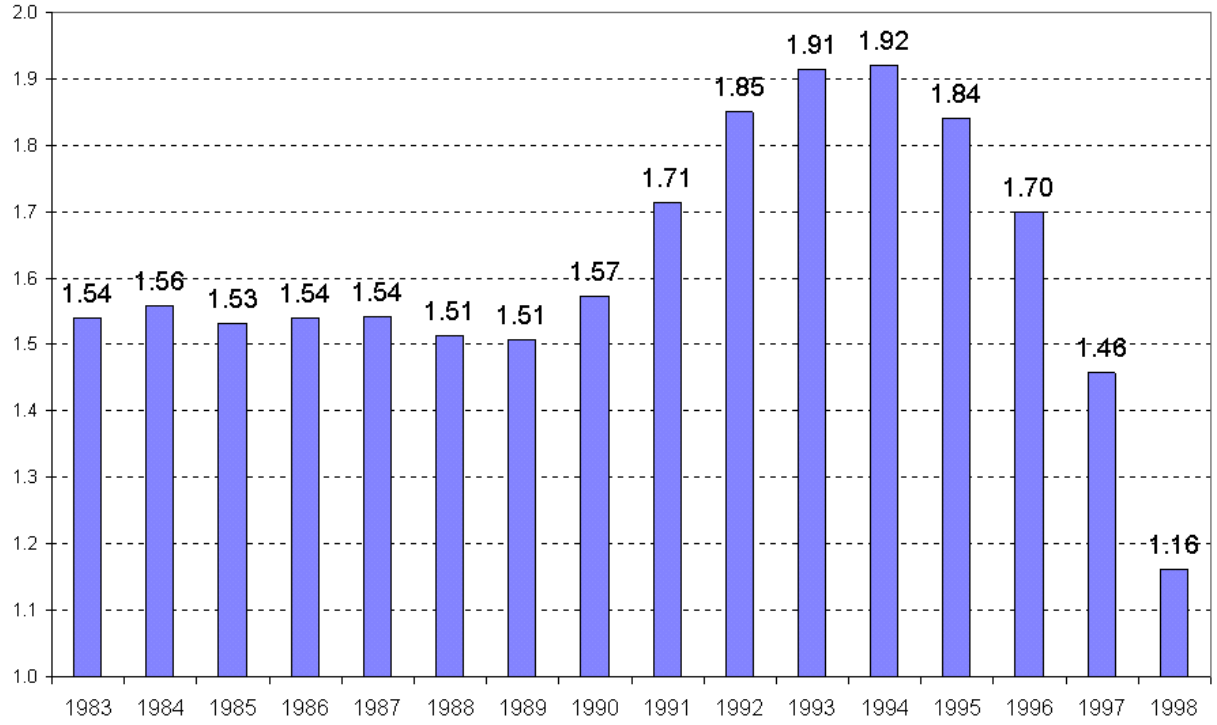
Family Caps. Under AFDC, welfare benefits automatically increased whenever the family grew in size. Under PRWORA, states have the option of setting limits on payments without regard to family size. South Carolina has not implemented a family

cap. Benefits increase by $41 per month for each additional child (provided as a voucher). By contrast, North Carolina and Georgia have implemented family caps.

4. PRWORA contains incentives for states to reduce their welfare caseloads and help families make the transition from welfare to work. To receive their full TANF block grant, states must achieve minimum work participation rates, beginning at 25 percent in FY 1997 and rising by five percentage points per year, reaching 50 percent in FY 2002 and after. Because states have pecuniary incentives to reduce caseloads, any reduction in caseloads is due to a combination of changes in behavior of welfare recipients and program administrators. It is difficult to separate the two because researchers typically observe only the behavior of welfare recipients.

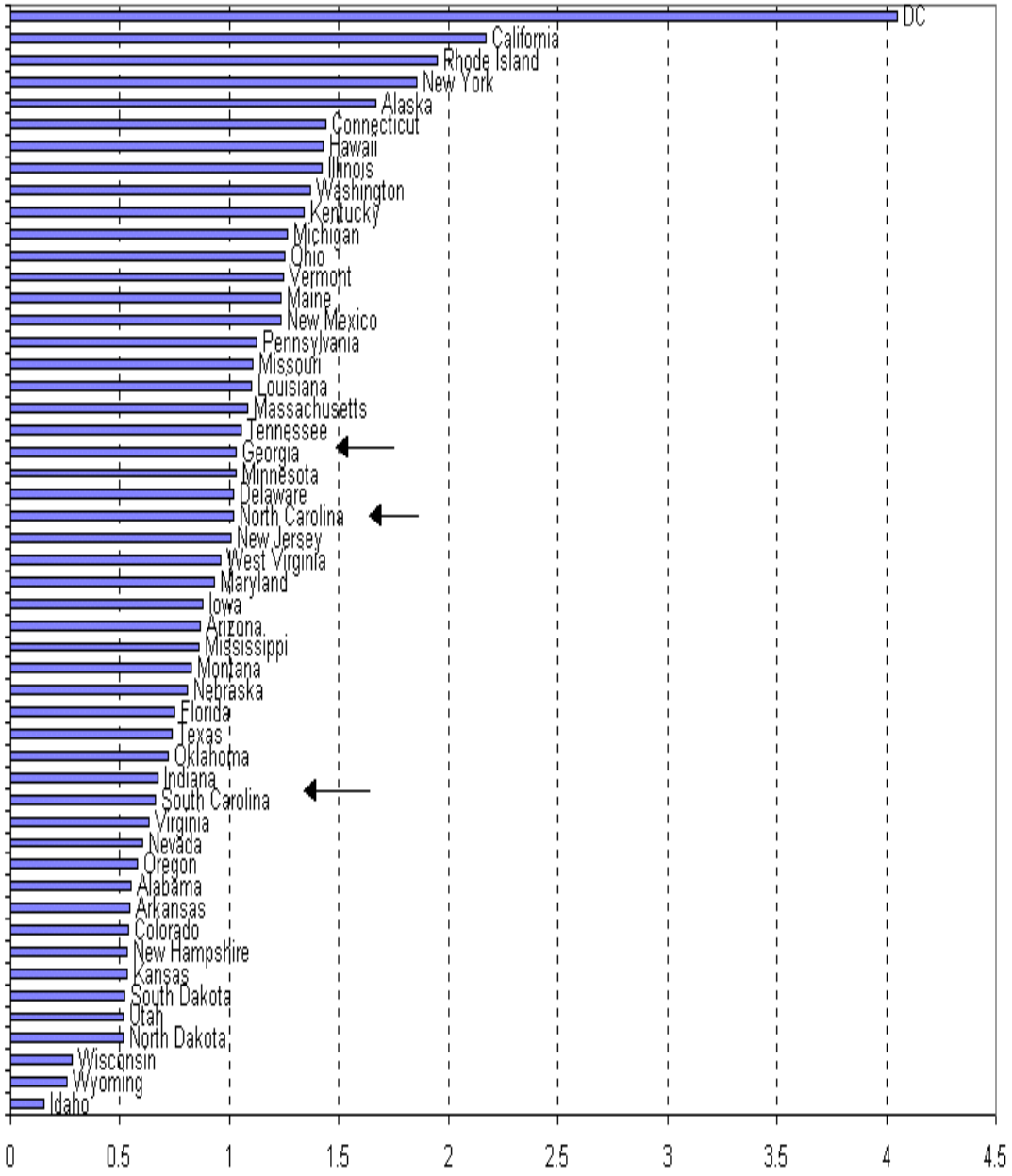
5. The number of welfare cases in the U.S. fell from 4.98 million in FY 1994 (1.92 cases per 100 persons) to 3.13 million (1.16 cases per 100 persons) in FY 1998, a decline of 37 percent (**see Figure 1**).

Fig. 1. AFDC Cases per 100 Persons, 50 States and DC, FY 1983-98



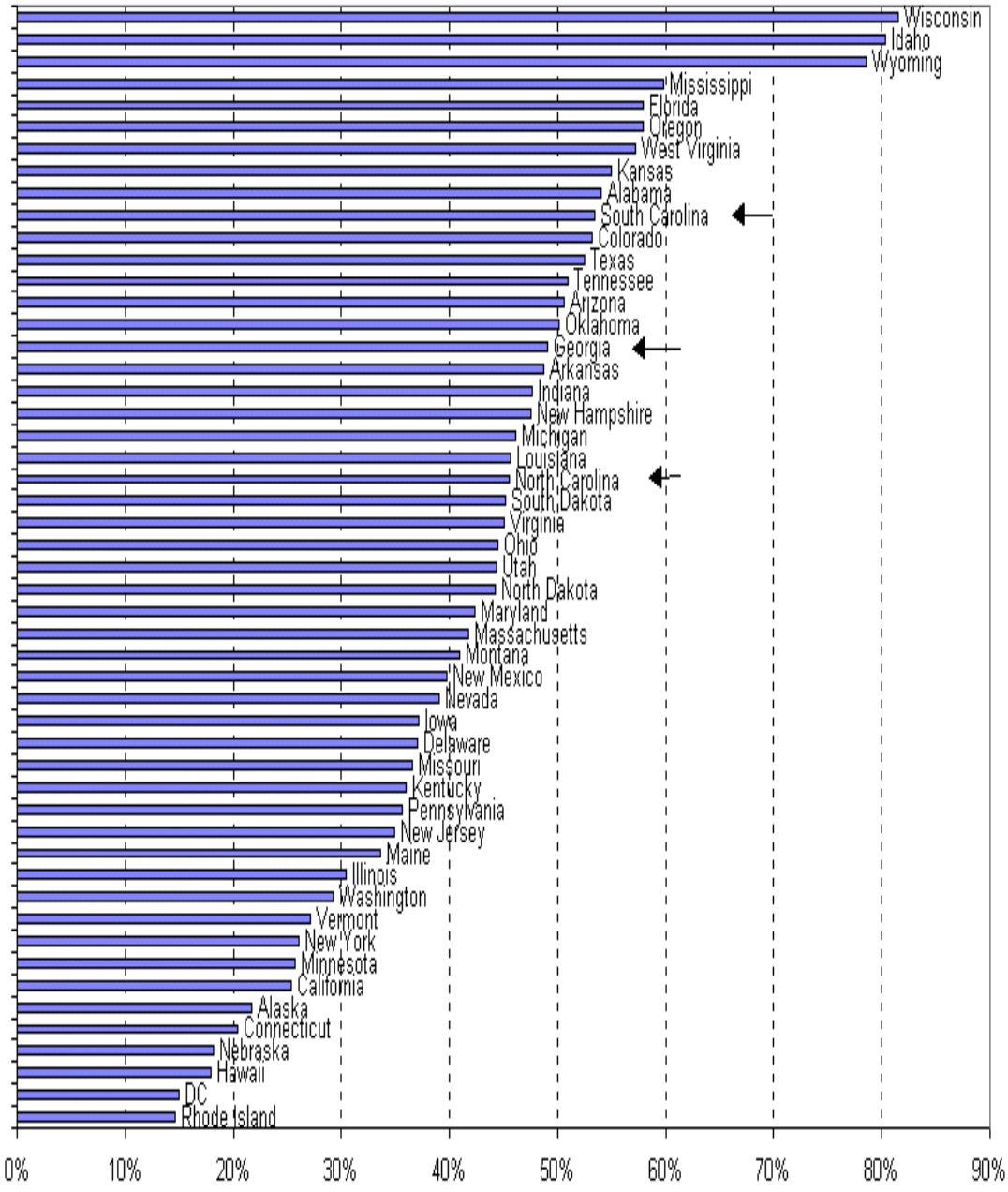
6. Relative to the nation, welfare participation has historically been, and continues to be low in South Carolina (see **Figure 2**). South Carolina's FY 1998 caseload was 15th-lowest in the nation. North Carolina's FY 1998 caseload was 1.02 per 100 persons (28th lowest) and Georgia's was 1.03 per 100 persons (31st lowest).

Figure 2. Welfare Cases per 100 Persons, FY 1998



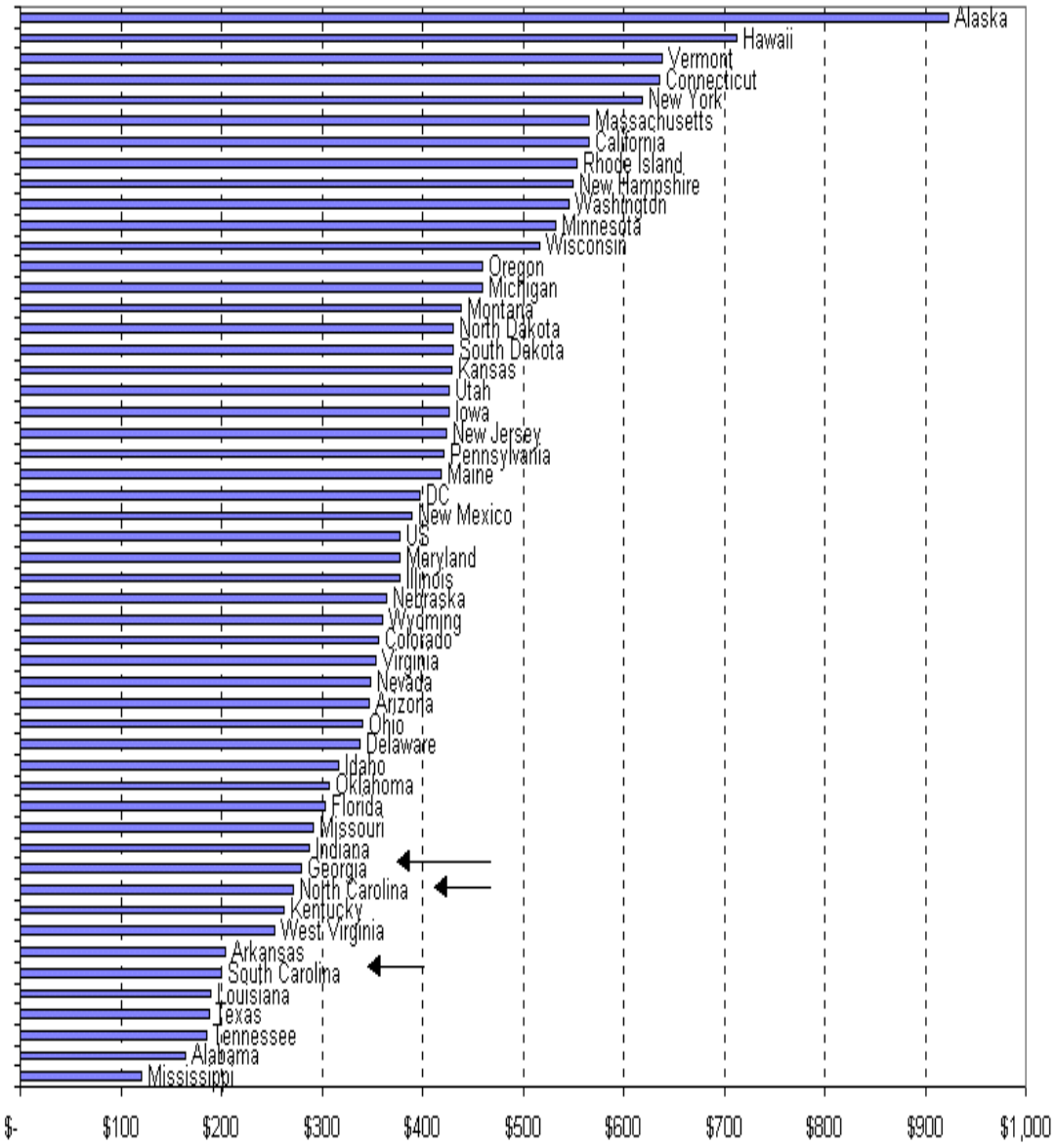
7. Caseloads in South Carolina fell from 1.42 cases per 100 persons (51,925) in FY 1994 to 0.66 cases per 100 persons (25,293) in FY 1998, a decline of 54.2 percent. The 54.2 percent decline in South Carolina's caseload was 10th highest in the nation. North Carolina's decline of 45.6 percent was 22nd highest and Georgia's decline of 49.1 percent was 16th highest (see **Figure 3**).

Figure 3. Percent Decline in Welfare Cases per 100 Persons, 1994-98



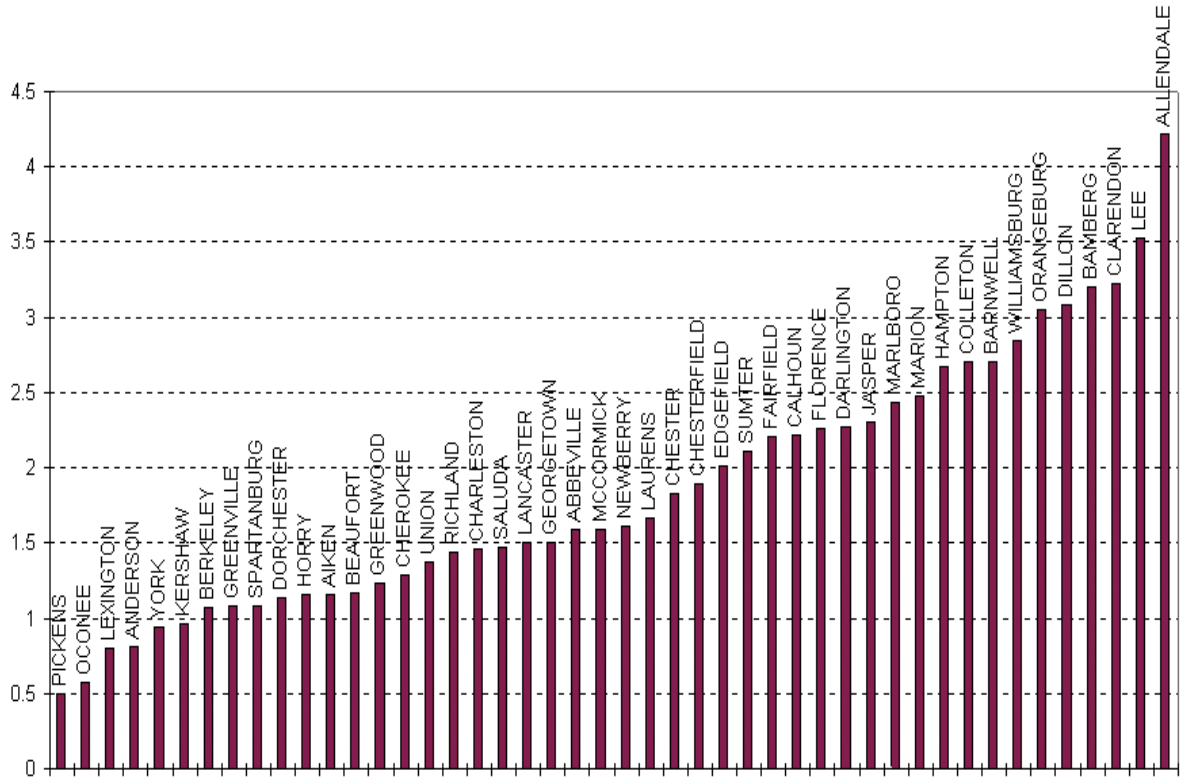
8. Adjusted for inflation, welfare benefits declined between 1990 and 1997 by 21 percent in South Carolina (7th largest decline in the nation), by 19 percent in North Carolina, and by 16.5 percent in Georgia. The median maximum welfare benefit for a family of three in January 1997 was $377. South Carolina $200 benefit was 6th lowest in the nation (see **Figure 4**). North Carolina's benefit was $272 (10th-lowest) and Georgia's was $280 (11th lowest). South Carolina's welfare benefit was about 11.6 percent of the earnings of full-time workers in manufacturing, lower than either North Carolina (14.3 percent) or Georgia (14.4 percent). Differences across states in FY 1998 welfare caseloads were strongly positively related to welfare benefits.

Figure 4. Maximum Welfare Benefits for a Family of Three, January 1997



9. Caseloads varied greatly across South Carolina counties (see **Figure 5**). For the first seven months of FY 1999, the median county caseload was 0.5 per 100 people, ranging from 0.2 cases per 100 persons in Pickens County to 1.2 cases per 100 people in Clarendon County. Caseloads tended to be higher in counties with higher rates of unemployment, lower average levels of education, and higher average welfare stipends per case.

Fig. 5. FY 1999 Welfare Cases per 100 Persons in South Carolina by County



10. Regression analysis on county level, annual data for South Carolina revealed that caseloads rise by:

a. 3.5 percent for each percentage point increase in the unemployment rate;
b. 2.5 percent for each 10 percent increase in welfare benefits;
c. 1.2 percent for every 10 percentage point decrease in average SAT scores;
d. 16.5 percent for every 10 percent decrease in median household income.

11. The estimated effects of SAT scores may appear to be small, but it must be kept in mind that better educated students earn higher incomes. Income had an extremely large negative effect on welfare caseloads. Indeed, because education is one of the few variable most under the control of policy makers, it should receive high priority.

12. Regression analysis using county level monthly data for South Carolina yielded slightly smaller estimated effects of unemployment, but significantly larger estimated effects of stipends. Each 10 percent increase in welfare stipends was estimated to increase caseloads by 6.2 percent.

13. I estimated that welfare reform reduced caseloads in South Carolina by about one third. This was very close to the effect estimated by Wallace and Blank (1999) for the U.S. as a whole (also using monthly data). Again, it must be kept in mind that this decline is a result of changes in behavior on the part of both welfare recipients and welfare administrators. More research is necessary to separate out these effects.

14. Although welfare reform appears to be a resounding success, enthusiasm may need to be tempered for a number of reasons. The most important one is that the economy is growing faster, and unemployment is lower, than at any time since the middle 1960s. The real test of welfare reform – both of recipients and of our resolve as a nation to stay with reform — is the next recession. Nor is it yet clear whether welfare reform has had other desirable effects, such as reducing teen pregnancy or the number of households headed by single women. Put differently, the reduction in caseloads since 1996 is a necessary, rather than a sufficient condition, for the long-run success of welfare reform.

A. Introduction

On August 22, 1996, the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) was enacted. This Act created the Temporary Assistance for Needy Families (TANF) block grant, which replaced the Aid to Families with Dependent Children (AFDC) program. In addition to severing the link between State and Federal spending on cash benefits and work-related services for needy families with children (Ways and Means 1998, p.495), PRWORA gave states unprecedented flexibility to create new cash assistance programs for families with children (Gallagher et. al. 1998).

PRWORA is only the most recent legislation reforming the welfare system. In 1988 Congress passed the Family Support Act, which required states to extend AFDC to two-parent families (AFDC-UP) if they had not already done so, and required that at least one parent in recipient families participate in a work or educational program (Stapleton et. al. 1997).[1] In the early and mid-1990s, several states obtained and implemented waivers to federal rules under Section 1115 of the Social Security Act. These waivers included imposing work requirements, the introduction of family cap provisions, elimination of the 100-hour work limitation rule for UP families, and elimination of the work history requirement for UP families (Stapelton et. al. 1997, I.3).

This paper presents a preliminary assessment of the impact of welfare reform on caseload growth in South Carolina. The limited scope of my analysis must be emphasized. Because South Carolina implemented its reforms in late 1996, I can only examine trends in the short- and medium-term. A more complete assessment of welfare reform, including analysis of labor supply, school attendance, child-bearing, and marital arrangements, would require much more data and time. The current paper can, however, hopefully serve as a useful backdrop against which to frame future analysis.

The outline of this monograph is as follows. In Section B, I give a brief overview of the history of the original AFDC program. I then describe the changes to the welfare system that were passed into law in the PRWORA. Section C describes recent trends in welfare caseloads, along with presenting a fairly extensive comparison of those trends across states. Section D examines the generosity of welfare payments across states, and how those payments have evolved over time. Section E briefly reviews three recent studies that have attempted to estimate the impact of welfare reform on welfare caseloads. Section F contains an extensive analysis of trends in welfare caseloads both over time and across South Carolina's 46 counties, as well as econometric estimates of the effect of welfare reform on caseloads. Section G explores some potential avenues of research. Section H offers some concluding thoughts about the future of welfare reform.

[1] In addition, Medicaid and Child Care programs were expanded.

B. The Welfare System

1. The System Prior to Reform

This section draws heavily from Gary Burtless (1990), who outlined the structure of the pre-reform welfare system in the United States. This system consisted of Aid to Families with Dependent Children (AFDC), Supplemental Security Income (SSI), General Assistance, the Earned Income Tax Credit (EITC), and several forms of in-kind transfers: food stamps, Medicaid, and housing and energy assistance (p. 58).[1] The EITC dates to 1976 and is managed as part of the federal income tax system. Medicaid and food stamps began in the early 1960s.

The focus of this paper is the AFDC/TANF program, the largest single cash program for the poor (Burtless, p. 61). This program originated during the Depression as part of the 1935 Social Security Act, and was jointly administered by the federal and state governments to provide benefits to families containing needy children. Before the passage of the Family Support Act of 1988, about half of the states restricted participation to families in which one parent – usually the father – was absent or incapacitated. The Family Support Act, passed in 1988, required all states to offer AFDC benefits to poor two-parent families.[2]

Although subsidized by the federal government, AFDC benefit levels were determined by state legislatures. As a result, there was substantial variation over time and across states in the value of those benefits. State legislatures were responsible for setting the basic support level. There was a benefit reduction rate associated with the AFDC program. For every dollar earned, whether in the labor market or otherwise, AFDC benefits fell at a certain rate. Initially, the nominal benefit reduction rate was 100 percent. This means that for every dollar earned, benefits fell by a dollar. The benefit reduction rate was reduced to 67 percent in 1967 (Burtless, p. 63). In 1981, Congress changed the tax treatment of earnings under AFDC, essentially restoring the 100 percent nominal benefit reduction rate that had been in effect before 1968, although recipients were subject to the 67 percent rate for the first four months of earnings.[3]

There is an inevitable tension between providing assistance to the needy and maintaining incentives for recipients to work sufficiently hard that they no longer require assistance. Many observers felt that AFDC succeeded in the first objective but failed in the second. The incentive to

[1] Burtless pointed out that large numbers of poor and near-poor families benefited from social insurance programs that also serve affluent families: Social Security, Medicare, unemployment insurance, and workmen's compensation.

[2] Provided that the primary earner was unemployed or working fewer than 100 hours per month.

[3] In fact, the story is more complex. Before 1981 AFDC recipients could deduct $30 for up to 12 months, but one-third of earnings for only four months (Moffitt 1992, p. 10, footnote 6). Burtless (1990) noted that in calculating the amount of earnings to be counted against benefits, welfare caseworkers usually deducted expenses deemed necessary for work, including income and payroll taxes, transportation and child care costs, and special food and clothing expenses. In fact, the effective AFDC tax rate on earnings was probably less than 50 percent before the reforms of 1967, and below 25 percent by 1971 (Burtless, p. 63). Similarly, the reforms of 1981 were accompanied by a "gradual tightening of administrative procedures," raising the effective rate to 70 percent in 1982 (Burtless, p. 64).

was indeed low. Because benefits were reduced dollar for dollar with earnings, welfare recipients faced among the highest effective tax rates in the United States. The incentive to save was low because families on welfare could not accumulate more than $1,000 in assets, or own a vehicle worth more than $1,500. Although welfare benefits (adjusted for inflation) declined throughout the 1980s, recipients seemed unable or unwilling to leave the program. For these reasons, many observers believed that the system had to be redesigned from the ground up.

2. The Reformed System

The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA) replaced AFDC with the Temporary Assistance for Needy Families (TANF) block grant. TANF's basic block grant entitles the 50 states and District of Columbia to a total of $16.5 billion per year of federal funding through fiscal year 2002 (Ways and Means 1998 p.503).[1] Before TANF, the federal government reimbursed states for about 55 percent of total welfare-related expenditures (Ways and Means 1998, p. 510). By federally funding programs for needy families in the form of block grants, PRWORA severed the link between state and federal spending on cash benefits and work-related services.[2]

TANF grants were based on past spending (FY 1992-1995) on programs for needy families. Three formulas were applied to determine the size of the grant, and the formula that resulted in the largest grant was applied. South Carolina has received, and will continue to receive through FY2002, nearly $100 million per year in Federal family assistance grants (Ways and Means 1998, Table 7-40, p. 504). This represents a $5.57 million increase relative to FY 1996, an increase of about five and one-half percent. By contrast, North Carolina receives $302.2 million, a decrease of $10.4 million – more than 3 percent — relative to FY 1996. Georgia, on the other hand, receives $330.7 million annually, an increase of $42 million over its spending in FY 1996.[3]

[1] Specifically, each state's basic grant equals the sum of Federal payments for AFDC, Emergency Assistance, and Jobs Opportunities and Basic Skills Training (JOBS) in recent years.

[2] However, there are provisions for extra funding for states with high rates of population growth, high and increasing unemployment rates (Ways and Means 1998, p. 509), and increased food stamp caseloads.

[3] This increase reflects, in part, supplements for high population growth and below-average federal spending per poor person in FY1994.

3. Highlights of the Reforms

PRWORA allows states great discretion in designing their cash assistance programs. Under TANF, states continue to set benefit levels. In contrast to AFDC, TANF allows states to set asset and income eligibility limits, as well as eligibility of two-parent families. However, there are a number of limits on the use of federal funds for cash assistance. For example, states may not use federal dollars to provide benefits for unwed mothers under 18 or their children unless they live under adult supervision, or to unwed mothers under 18 without a high school diploma unless they attend school (Ways and Means 1998, p. 496). Other limitations on the use of federal TANF funds include a time limit on the receipt of TANF funds and work-triggers.

Gallagher et. al. (1998) reviewed in detail states' implementations of welfare reform. It is useful to highlight the changes implemented in South Carolina, and compare them with the changes implemented by North Carolina and Georgia.

Time Limits. Perhaps the most controversial provision of PRWORA, states may not use TANF funds to aid families that include an adult who has received 60 months of TANF benefits. States are also permitted to implement stricter limits. Although states may use their own funds to provide benefits to individuals beyond the federally mandated time limits, only Michigan and Vermont have chosen to do so.

Table B.1 shows the time limits implemented in South Carolina, along with the implementation date. South Carolina enacted limits stricter than required by PRWORA, limiting families to 24 months of assistance every ten years. Georgia implemented a lifetime limit of just four years on public assistance. All three states terminate benefits for families that reach the state time limit.

Table B.1. Time Limits in the Carolinas and Georgia

	Short Run Time Limit	Lifetime Time Limit	Benefit Termination or Reduction?	Implementation Date
South Carolina	24 Out of 120 Months	60 months	Termination	Oct-96
North Carolina	24 Out of 60 Months	60 months	Termination	Jul. 96; Jan. 97
Georgia	48 Months	48 Months	Termination	Jan-97

Exceptions to Time Limits. States are permitted to exempt certain families up to 20 percent of their caseload from federally mandated time limits. **Table B.2** shows the exceptions implemented in South Carolina, North Carolina, and Georgia.

Table B.2. Exemptions to Time Limits

	Disability/ Illness	Caring for Disabled Person	General Hardship/ Personal Barriers	Caring for Young Child	Victim of Domestic Violence	Other Extensions Possible?
South Carolina	Yes	Yes	No	No	No	Yes
North Carolina	Yes	Yes	No	Yes	No	Yes
Georgia	Yes	No	Yes	No	Yes	No

South Carolina will extend benefits for up to 12 months if no work is available provided that the beneficiary complies with a self-sufficiency plan, or for up to 6 months upon completing an approved training program.[1] North Carolina will extend benefits on a month-to-month basis, provided that the person complies with a personal responsibility contract, or is unable to comply for good cause, and cannot find work.

Work Requirements. Under PRWORA, states must require parents or other caretakers to engage in work-related activities after no more than 24 months of aid.[2] **Table B.3** shows work requirements and sanctions in the Carolinas and Georgia.

Table B.3. Work Requirements and Sanctions

	Immediate Work Required?	Initial Sanction, Reduction	Minimum Sanction Length	Most Severe Sanction	Min. Length, Most Severe Sanction
SC	No	100%	1 mo. after compliance	100%	1 mo. after compliance
NC	Yes	$50	3 months	$75	12 months
GA	Yes	25%	1 month	100%	Lifetime

South Carolina does not have a hard and fast immediate work requirement, instead requiring TANF recipients to work when they are "determined able to engage in work" or within 24 months, whichever is sooner.[1] By comparison, North Carolina and Georgia require TANF recipients to engage in work-related activities immediately upon receiving benefits. South Carolina imposes a 100 percent reduction in benefits for failure to comply with relatively milder work requirements. North Carolina imposes a relatively long sanction length, but reduces benefits by only $50 per month.[2] Georgia has a comparatively mild minimum sanction, but the most severe maximum sanction.[3]

Income Eligibility Limits. Prior to AFDC, recipients were subject to two income eligibility tests. PRWORA allows states to design their own income eligibility tests. As was the case under AFDC, income eligibility limits become stricter as time on welfare progresses. **Table B.4** shows these limits for the Carolinas and Georgia for the first month and thirteenth month of earnings. Neither North Carolina nor Georgia changed their limits, while South Carolina increased their limits by $20.

[1] The 6-month limit may be extended with the express permission of the county director.

[2] Although states must require participation in community service after 2 months of aid, they were permitted to opt out. Roughly 20 States did so (Ways and Means 1998, p.497). In addition, states may exempt singe parents caring for children under one year of age.

[1] Information on immediate work requirements was from TANF Report to Congress, Table 9.1, part a.

[2] Specifically, the reductions are: 1st instance of noncompliance, $50 for three months; 2nd instance, $75 for three months; 3rd instance, $75 for six months; subsequent instances, $75 for 12 months (Gallagher et. al. 1998, Table A.2.

[3] Specifically, continued noncompliance after three months or the second instance of noncompliance in 24 months will result in the termination of benefits for life (Gallagher et. al. 1998, Table A.2).

Table B.4. Income Eligibility Limits in the Carolinas and Georgia

	TANF			AFDC	
	1st Month of Earnings, Oct. 1997	13th Month of Earnings		1st Month of Earnings, Jul. 1996	13th Month of Earnings
South Carolina	$930	$630		$910	$610
North Carolina	$940	$630		$940	$630
Georgia	$760	$510		$760	$510

Income eligibility limits are similar in South and North Carolina, but much lower in Georgia. Income eligibility levels decline between the first and thirteenth month by $100 in South Carolina, by $110 in North Carolina, and by $150 in Georgia.

Asset Limits. Under AFDC, families were not permitted to acquire more than $1,000 in assets, although there was an exemption for a vehicle worth up to $1,500. In addition to allowing states to change these limits, PRWORA gives states the authority to use TANF funds to create Individual Development Accounts, a form of restricted savings account that allows individuals to accumulate savings to be used for postsecondary education, home ownership, and business capitalization. These limits are shown for the Carolinas and Georgia in **Table B.5**.

Table B.5. Asset Limits in the Carolinas and Georgia

	TANF			AFDC			
	Asset Limit	Vehicle Limit		Asset Limit	Vehicle Limit		Restricted Saving Acct.
South Carolina	$ 2,500	$ 10,000		$ 1,000	$ 1,500		$ 10,000
North Carolina	$ 3,000	$ 5,000		$ 1,000	$ 1,500		n/a
Georgia	$ 1,000	$ 4,650		$ 1,000	$ 1,500		$ 5,000

South Carolina's asset limits are among the highest in the nation. Although its asset limit of $2,500 is $500 lower than North Carolina's $3,000 limit, South Carolina allows recipients to save up to $10,000 in a restricted savings account. In addition, South Carolina's vehicle limit of $10,000 is double that in North Carolina's, and more than double Georgia's $4,650 limit.

As noted earlier, there is an inevitable tension between providing public assistance to the needy and maintaining incentives to work and succeed. Even in light of this tension, AFDC's asset limits may have been counterproductive. An automobile — a necessity in most regions of the United States — worth only $1,500 is unlikely to provide reliable transportation to individuals for whom reliability is probably their most valuable asset.

Family Caps. Under AFDC, welfare benefits automatically increased whenever the family grew in size. Under PRWORA, by contrast, states have the option of setting limits on payments without regard to family size. Only two states– Idaho and Wisconsin – set a flat benefit regardless of family size. In most states, initial benefits are higher for larger families, but do not increase if the family grows. **Table B.6** shows how the maximum TANF benefit varied by family size in the Carolinas and Georgia in July 1997.

Table B.6. Maximum TANF Benefits by Family Size, July 1, 1997

	Initial Family Size of:						Increased benefits for additional kids under TANF?
	1	2	3	4	5	6	
South Carolina	$119	$159	$200	$241	$281	$322	Yes (voucher)
Increment		$ 40	$ 41	$ 41	$ 40	$ 41	
North Carolina	$181	$236	$272	$297	$324	$349	No
Increment		$ 55	$ 36	$ 25	$ 27	$ 25	
Georgia	$155	$235	$280	$330	$378	$410	No
Increment		$ 80	$ 45	$ 50	$ 48	$ 32	

Benefits are lower in South Carolina than in North Carolina or Georgia. However, South Carolina has not implemented a family cap. Benefits increase by $41 per month for each additional child (provided as a voucher). By contrast, North Carolina and Georgia have implemented family caps.

4. Penalties and Incentives for States

PRWORA contains incentives for states to reduce their welfare caseloads and help families make the transition from welfare to work. To receive their full TANF block grant, states must achieve minimum work participation rates, beginning at 25 percent in FY 1997 and rising by five percentage points per year, reaching 50 percent in FY 2002 and after (Ways and Means 1998, p. 498).[1] States that fall short of the required participation rate will have their TANF block grant reduced by five percent for the first failure, rising by two percentage points each year, with a maximum penalty of 21 percent in any one year (Ways and Means 1998, p. 499).

States also must maintain a level of historic spending, typically 75 percent of FY 1994 spending on programs replaced by TANF (the so-called Maintenance of Effort requirement). In addition, penalties are imposed on states for failure to comply with child support enforcement requirements, uphold the five-year TANF limit on benefits, or maintain aid for a single parent who

[1] Mandated participation rates for two-parent families start at 75 percent in FY1997-98 and rise to 90 percent in FY 1999 and after.

cannot obtain care for a child under six years of age.

PRWORA provided up to $400 million over four years to states that reduce out-of-wedlock birth rates and abortion rates below FY 1995 levels (Ways and Means 1998, p. 509). The five states with the greatest annual decline in out-of-wedlock birth rates will receive a bonus of $20 million, provided they also reduce the abortion rates. Finally, PRWORA provided $1 billion for fiscal years 1999-2003 to reward so-called "high performance" states. Although performance criteria were not set at the time Ways and Means (1998) was published, DHHS was considering four measures: employment, job retention, earnings progression, and birth rates of females between the ages of 15 and 17.

5. Discussion

Because states have pecuniary incentives to reduce caseloads, the reduction in caseloads that has occurred since 1996 (discussed in the next Section) is due to a combination of changes in behavior of welfare recipients and program administrators. It is difficult to separate the two because researchers typically observe only the behavior of welfare recipients. This is not a minor point. Research found that welfare recipients under AFDC were only mildly sensitive even to relatively large changes in incentives including work and schooling requirements and benefit reduction rates (Moffitt 1992). The steep declines in welfare caseloads that have occurred are therefore unlikely to be solely due to the response of welfare recipients to changes in the welfare program.

C. Trends in Welfare Caseloads and Recipients

1. National Trends

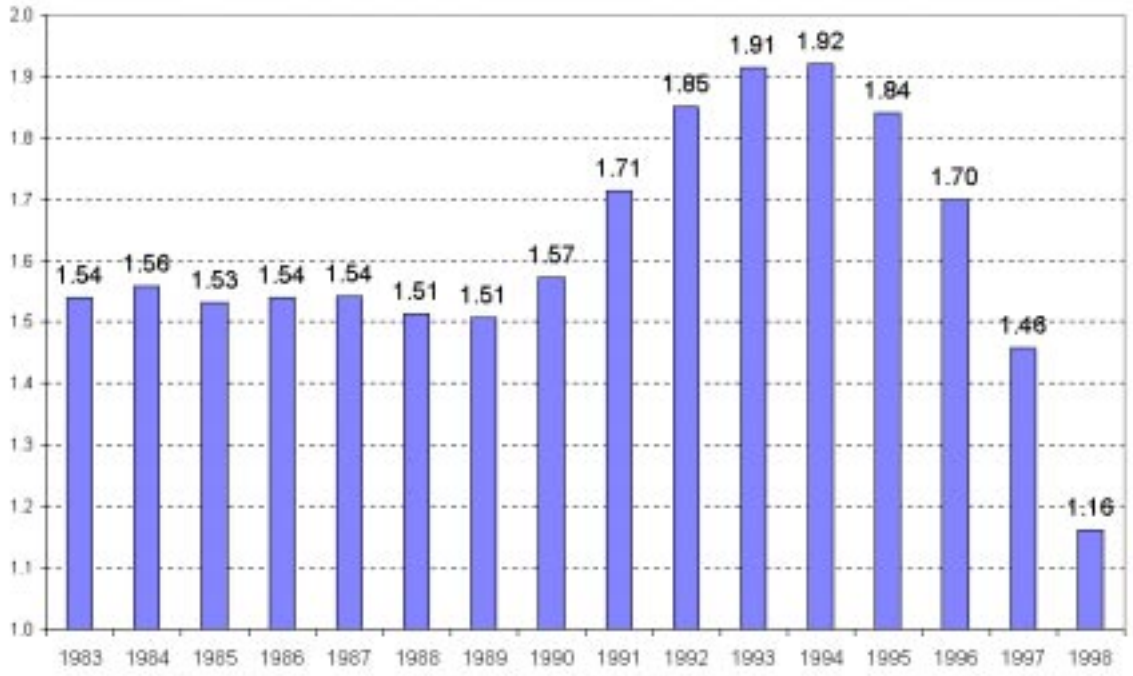
Table C.1 contains data on welfare caseloads and recipients for the 50 states and District of Columbia, by fiscal year, between 1983 and 1998. The number of cases hovered around 3.5 million between 1983 and 1989, rose sharply in the early 1990s to nearly 5 million, and fell between 1994 and 1998. The most dramatic declines occurred between 1996 and 1998, by which time the number of cases fell to just over 3 million, fewer than in 1975. The trend in recipients was similar.

Table C.1 Welfare Caseloads and Recipients, FY 1983-1998

Fiscal Year	Total Recipients	Total Caseloads	Population	Recipients per 100 Persons	Cases per 100 Persons
1983	10,466,822	3,593,151	233,260,107	4.49	1.54
1984	10,676,775	3,667,038	235,316,674	4.54	1.56
1985	10,629,560	3,635,146	237,399,072	4.48	1.53
1986	10,810,095	3,690,959	239,580,611	4.51	1.54
1987	10,878,217	3,727,023	241,749,909	4.50	1.54
1988	10,734,300	3,690,825	243,946,467	4.40	1.51
1989	10,741,175	3,711,007	246,239,168	4.36	1.51
1990	11,263,460	3,913,002	248,783,842	4.53	1.57
1991	12,390,695	4,310,886	251,455,230	4.93	1.71
1992	13,943,414	4,917,959	257,058,207	5.28	1.85
1993	14,032,535	4,984,521	259,653,454	5.42	1.91
1994	14,032,535	4,984,521	259,653,454	5.40	1.92
1995	13,485,122	4,822,313	262,146,020	5.14	1.84
1996	12,476,379	4,497,308	264,583,583	4.72	1.70
1997	10,785,295	3,896,069	267,105,145	4.04	1.46
1998	8,632,790	3,133,708	269,659,792	3.20	1.16

Figure C.1 shows the number of welfare cases per 100 persons. Between 1983 and 1989, there were roughly 1.5 families on welfare for every 100 people in the nation. Caseloads rose to just over 1.9 families per 100 people by 1994 and then fell to just over 1.1 cases per 100 people by 1998. The trend in recipients per 100 persons (not shown) was similar. From 4.5 recipients per 100 people between 1983 and 1989, the number of recipients rose to 5.5 per 100 people by 1994, and fell to just over 3 recipients per 100 people by 1998.

Fig. C.1. AFDC Cases per 100 Persons, 50 States and DC, FY 1983-98



2. Welfare Caseloads and Recipients Across States

There is considerable geographic variation in welfare participation. **Figure C.2** shows welfare cases per 100 persons for FY 1998 for the 50 states and the District of Columbia. South Carolina had the 15th lowest welfare caseload with 0.66 cases per 100 persons, compared with a national average of 1.16 cases per 100 persons. North Carolina and Georgia, with 1.02 and 1.03 cases per 100 people, were just above the median (28th and 31st lowest, respectively).

Table C.2 shows the same data organized by region, and sorted by caseload within region. Within the South Atlantic region, only Virginia, with its highly skilled population and booming economy around the D.C. metropolitan area had a lower caseload than South Carolina.

With more than four families on welfare for every 100 persons, Washington, D.C. had the highest welfare caseload in the nation. It was followed by California (2.17 cases per 100 persons), Rhode Island (1.95), and New York (1.85). The states with the lowest caseloads were Idaho (0.15 cases per 100 persons, or 1.5 per thousand persons), Wyoming (0.26 per hundred persons), and Wisconsin (0.28 per hundred).

Figure C.2. Welfare Cases per 100 Persons, FY 1998

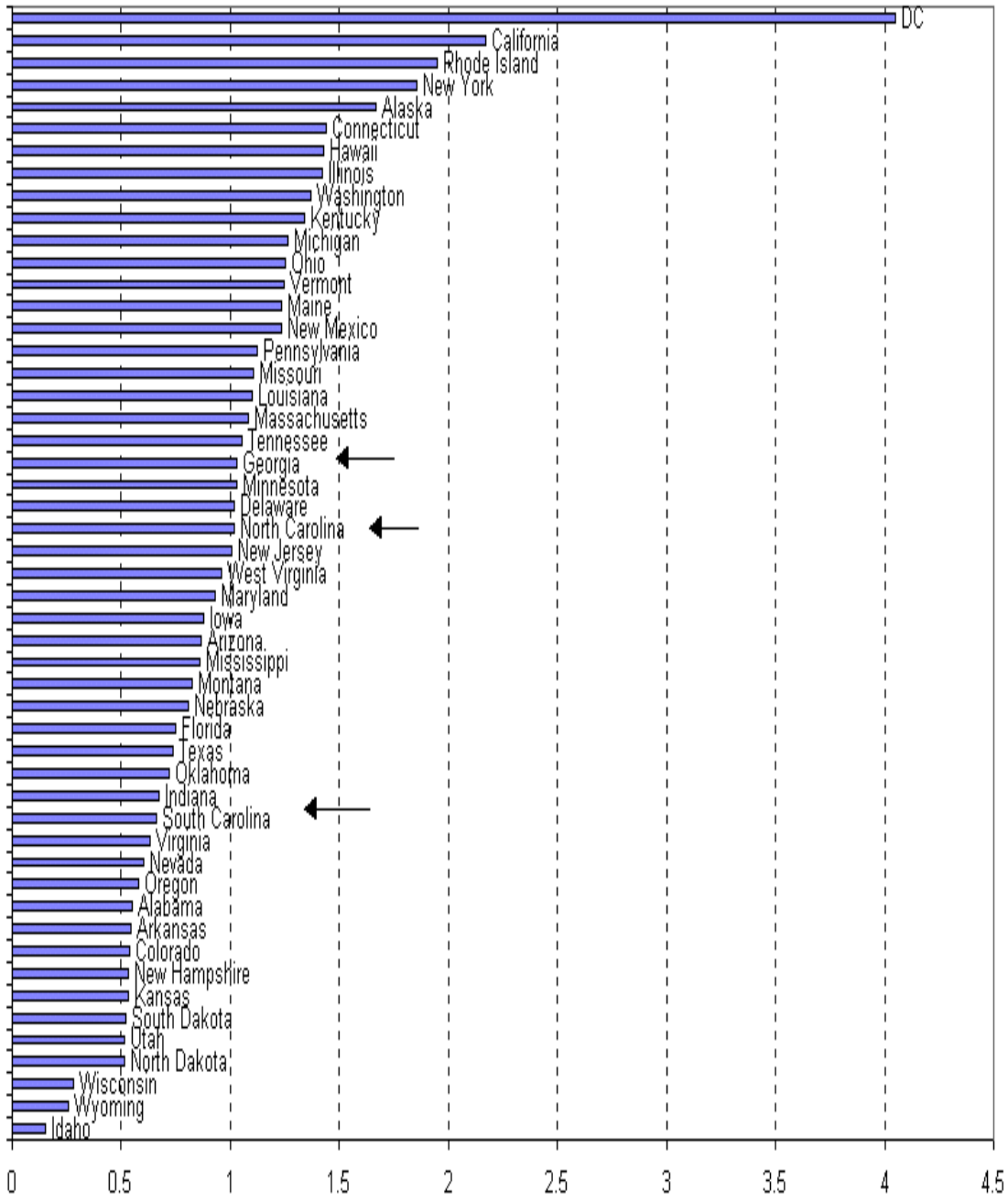
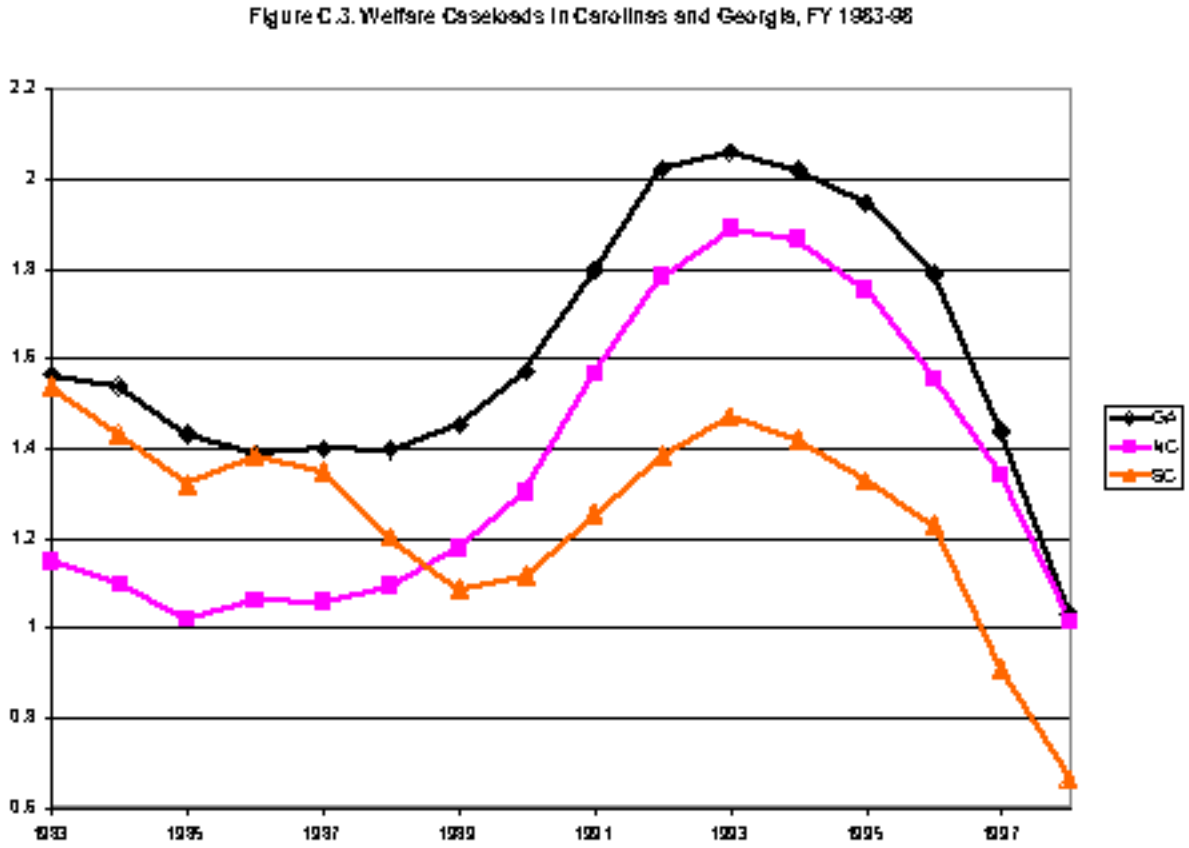


Table C.2. Welfare Caseloads and Recipients by State, FY 1998					
	Total Recipients	Total Cases	Population	Recipients per 100 Persons	Cases per 100 Persons
South Atlantic					
Virginia	103,180	42,718	6,777,881	1.52	0.63
South Carolina	**66,226**	**25,293**	**3,824,001**	**1.73**	**0.66**
Florida	291,105	111,143	14,856,280	1.96	0.75
Maryland	125,890	47,564	5,124,837	2.46	0.93
West Virginia	47,841	17,351	1,812,175	2.64	0.96
North Carolina	**184,128**	**76,337**	**7,517,539**	**2.45**	**1.02**
Delaware	17,221	7,568	741,488	2.32	1.02
Georgia	**202,111**	**78,196**	**7,604,151**	**2.66**	**1.03**
DC	57,015	21,264	524,817	10.86	4.05
New England					
New Hampshire	15,415	6,295	1,181,821	1.30	0.53
Massachusetts	175,528	66,409	6,138,959	2.86	1.08
Maine	40,644	15,331	1,243,661	3.27	1.23
Vermont	20,306	7,366	590,320	3.44	1.25
Connecticut	129,298	47,189	3,272,362	3.95	1.44
Rhode Island	54,198	19,229	988,176	5.48	1.95
Mid Atlantic					
New Jersey	208,023	81,665	8,100,854	2.57	1.01
Pennsylvania	377,646	134,995	12,003,908	3.15	1.12
New York	914,627	336,858	18,168,026	5.03	1.85
East North Central					
Wisconsin	45,650	14,649	5,217,932	0.87	0.28
Indiana	113,451	39,679	5,890,608	1.93	0.67
Ohio	366,439	140,286	11,205,353	3.27	1.25
Michigan	359,627	123,693	9,807,928	3.67	1.26
Illinois	507,763	170,917	12,031,333	4.22	1.42
West North Central					
North Dakota	8,733	3,275	638,924	1.37	0.51
South Dakota	10,137	3,851	738,067	1.37	0.52
Kansas	36,709	13,914	2,622,160	1.40	0.53
Nebraska	37,380	13,374	1,661,292	2.25	0.81
Iowa	68,053	25,167	2,860,418	2.38	0.88
Minnesota	144,080	48,464	4,715,916	3.06	1.03
Missouri	156,367	60,074	5,431,033	2.88	1.11
East South Central					
Alabama	57,994	23,792	4,344,528	1.33	0.55
Mississippi	59,953	23,631	2,746,980	2.18	0.86
Tennessee	148,190	57,185	5,415,889	2.74	1.06
Kentucky	127,504	52,645	3,929,966	3.24	1.34
West South Central					
Arkansas	34,859	13,844	2,534,524	1.38	0.55
Oklahoma	64,832	24,135	3,340,438	1.94	0.72
Texas	401,200	145,232	19,666,135	2.04	0.74
Louisiana	123,276	47,916	4,365,137	2.82	1.10
Mountain					
Idaho	4,236	1,860	1,223,729	0.35	0.15
Wyoming	2,842	1,247	480,691	0.59	0.26
Utah	29,500	10,769	2,091,069	1.41	0.51
Colorado	54,951	21,193	3,951,236	1.39	0.54
Nevada	26,736	10,383	1,729,846	1.55	0.60
Montana	21,405	7,275	880,022	2.43	0.83
Arizona	109,709	40,163	4,639,786	2.36	0.87
New Mexico	67,930	21,363	1,733,690	3.92	1.23
Pacific					
Oregon	47,524	18,898	3,272,299	1.45	0.58
Washington	214,701	77,762	5,670,485	3.79	1.37
Hawaii	47,401	17,031	1,192,765	3.97	1.43
Alaska	30,979	10,210	612,921	5.05	1.67
California	2,072,276	707,063	32,545,442	6.37	2.17

3. Evolution of Caseloads in the Carolinas and Georgia

Figure C.3 and **Table C.3** show how caseloads evolved over time in the Carolinas and Georgia between FY 1983 and 1998.

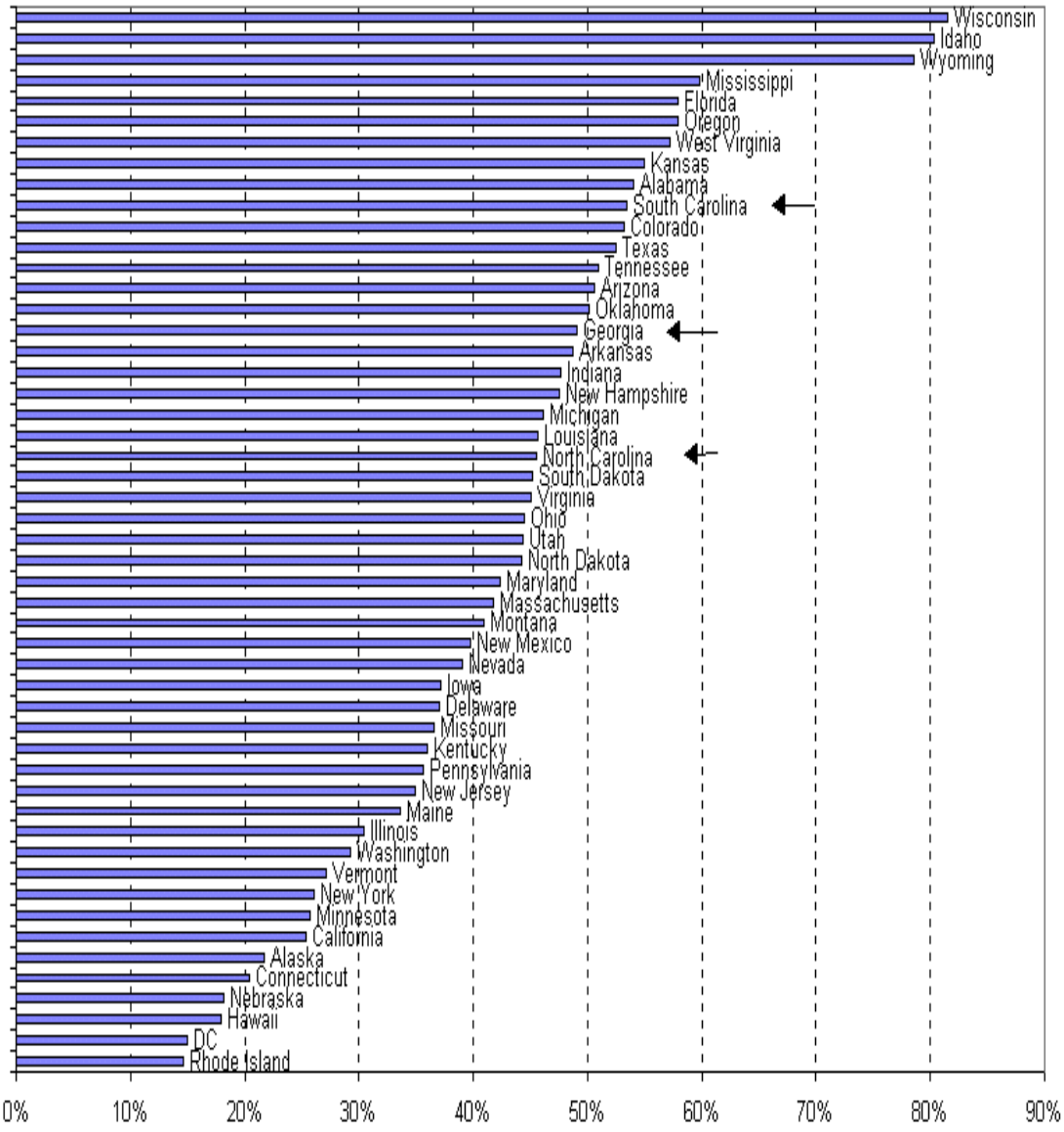


There were 1.5 cases per 100 persons in South Carolina in 1983, about the same as Georgia. Caseloads in South Carolina declined between 1983 and 1989. Caseloads in North Carolina and Georgia fell between 1983 and 1985. Caseloads in all three states rose in the recession of 1990-91, and fell as the economy strengthened in 1994. The decline in caseloads accelerated in all three states after the passage of welfare reform in 1996.

4. The Decline in Caseloads Between 1994 and 1998

Figure C.4 shows the percentage decline in annual average caseloads between FY 1994 and 1998 for the 50 states and the District of Columbia.

Figure C.4. Percent Decline in Welfare Cases per 100 Persons, 1994-98



The decline in South Carolina, 53.4 percent, was 10th highest in the nation. North Carolina (45.6 percent, 22nd highest) and Georgia (49.1 percent, 16th highest) were not far behind in absolute terms. The largest declines by far were in Wisconsin (81.5 percent), Idaho (80.3 percent), and Wyoming (78.6 percent). By contrast, caseloads fell by only 14.6 percent in Rhode Island, 15.0 percent in D.C., and 18.0 percent in Hawaii.

5. What is Responsible for the Decline in Caseloads?

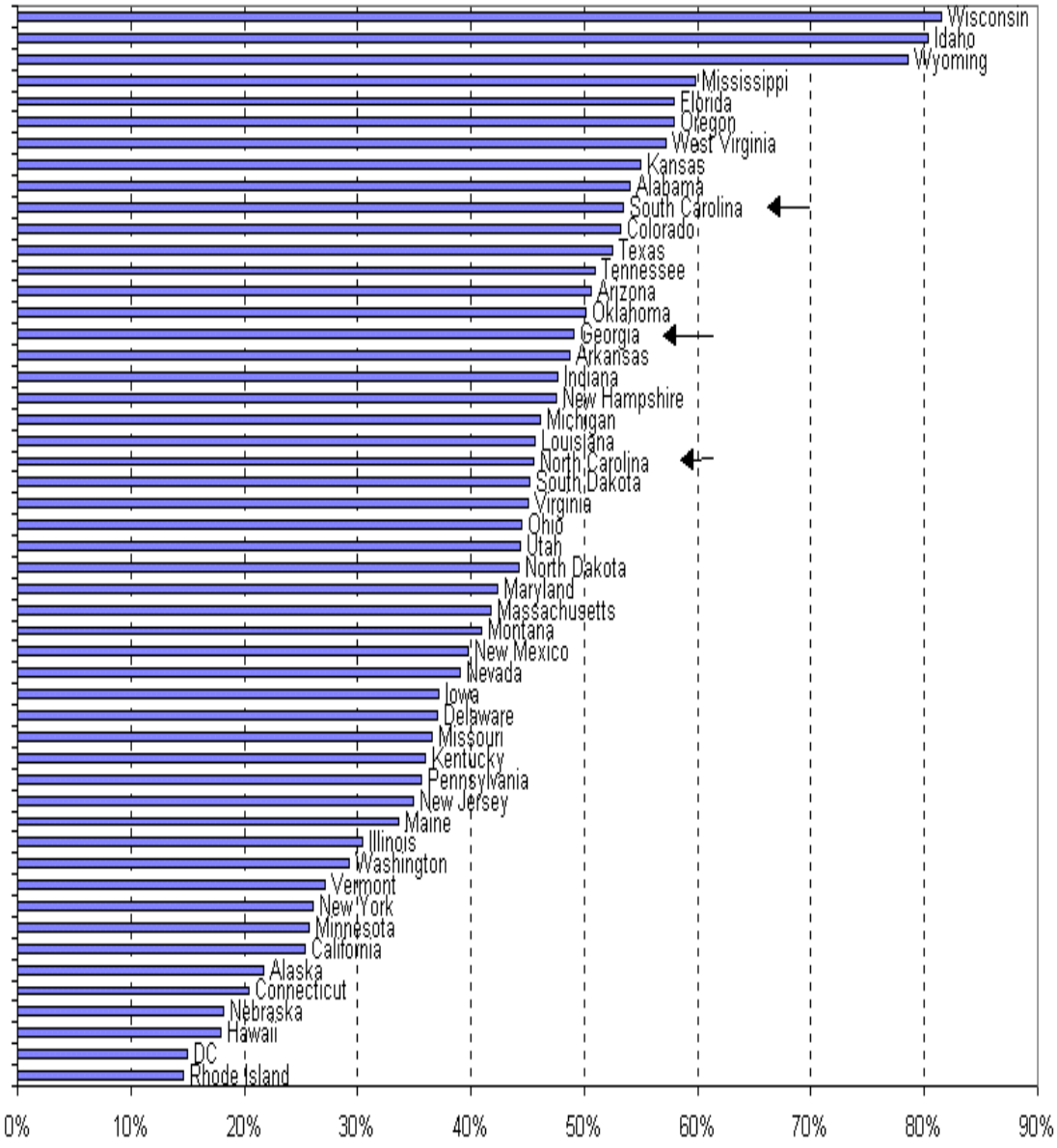
It is tempting to link the acceleration of the caseload decline after 1996 to welfare reform. However, it is difficult to assess the impact of welfare reform based on graphs such as the one shown in Figure C.3. The decline in welfare caseloads between 1994 and 1998 coincided with highest rates of economic growth and the lowest rates of unemployment since the mid-1960s. Moreover, the effects of economic prosperity operate with a lag. Part of the decline in welfare caseloads in 1997 and 1998 were due to improvements in the economy as far back as 1995 and 1996. Also, states implemented welfare reform differently at various points in time.

At least part of the decline in welfare caseloads was due to declining (inflation-adjusted) welfare benefits. For this reason, it is worth examining trends in welfare payments. It is also helpful to put welfare benefits in perspective. They have never been particularly generous in an absolute sense and, indeed, have been declining in real value since the middle 1980s. A comparison of benefits across states is also valuable in understanding how the generosity of welfare benefits affects caseloads.

4. The Decline in Caseloads Between 1994 and 1998

Figure C.4 shows the percentage decline in annual average caseloads between FY 1994 and 1998 for the 50 states and the District of Columbia.

Figure C.4. Percent Decline in Welfare Cases per 100 Persons, 1994-98



The decline in South Carolina, 53.4 percent, was 10th highest in the nation. North Carolina (45.6 percent, 22nd highest) and Georgia (49.1 percent, 16th highest) were not far behind in absolute terms. The largest declines by far were in Wisconsin (81.5 percent), Idaho (80.3 percent), and Wyoming (78.6 percent). By contrast, caseloads fell by only 14.6 percent in Rhode Island, 15.0 percent in D.C., and 18.0 percent in Hawaii.

5. What is Responsible for the Decline in Caseloads?

It is tempting to link the acceleration of the caseload decline after 1996 to welfare reform. However, it is difficult to assess the impact of welfare reform based on graphs such as the one shown in Figure C.3. The decline in welfare caseloads between 1994 and 1998 coincided with highest rates of economic growth and the lowest rates of unemployment since the mid-1960s. Moreover, the effects of economic prosperity operate with a lag. Part of the decline in welfare caseloads in 1997 and 1998 were due to improvements in the economy as far back as 1995 and 1996. Also, states implemented welfare reform differently at various points in time.

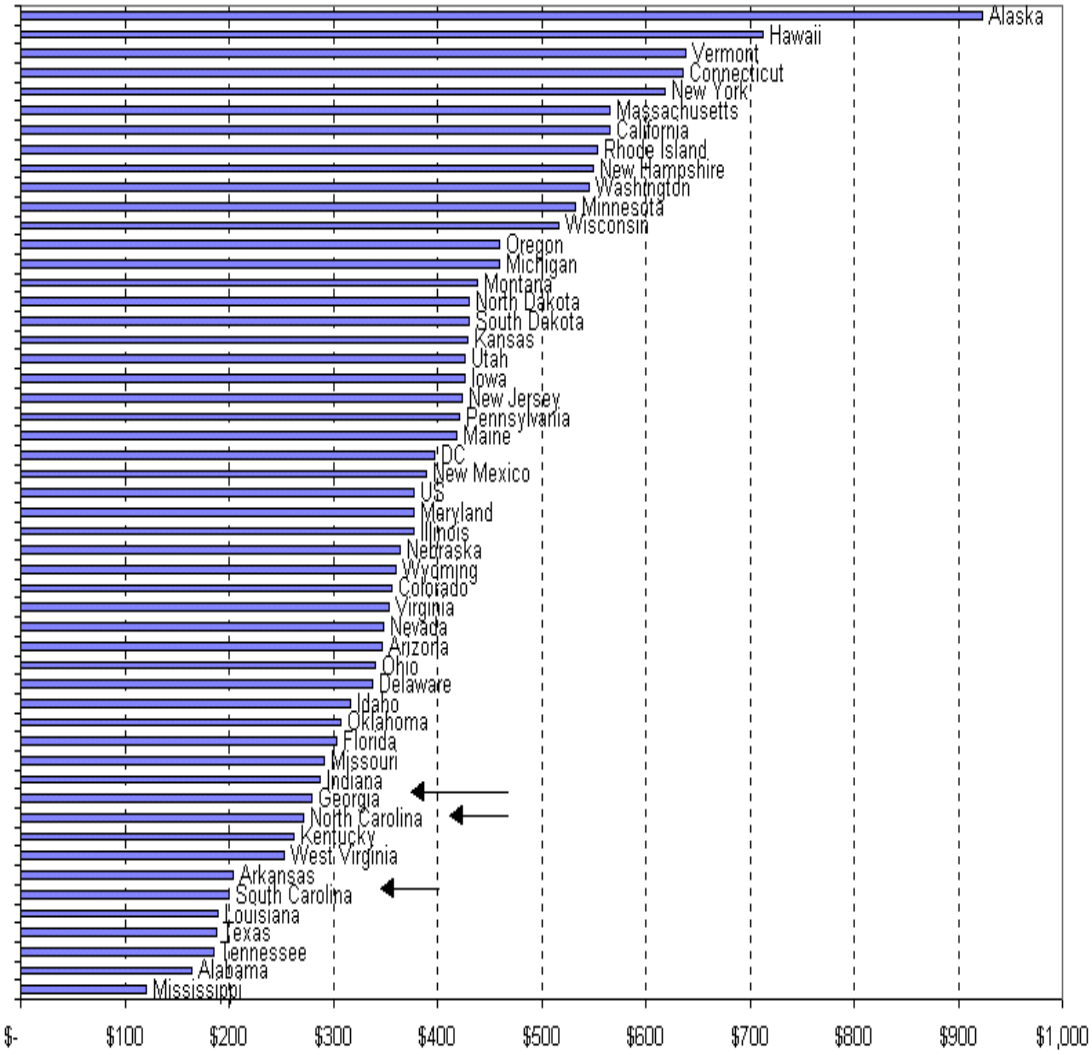
At least part of the decline in welfare caseloads was due to declining (inflation-adjusted) welfare benefits. For this reason, it is worth examining trends in welfare payments. It is also helpful to put welfare benefits in perspective. They have never been particularly generous in an absolute sense and, indeed, have been declining in real value since the middle 1980s. A comparison of benefits across states is also valuable in understanding how the generosity of welfare benefits affects caseloads.

D. The Generosity of Welfare Payments

1. Benefits in 1997

The generosity of welfare benefits varies enormously across states. I collected data on the maximum monthly benefit for a one-parent, three-person (that is, two-child) family for various years.[1] **Figure D.1** shows benefits by state for January 1997. **Table D.1** shows the same data sorted by region, and sorted by benefit level within each region. The median benefit was $377, ranging from a low of $120 per month in Mississippi to a high of $923 in Alaska. The benefit in South Carolina of $200 was 6th lowest in the nation, lower than North Carolina's benefit of $272 (10th lowest) and Georgia's benefit of $280 (11th lowest).

Figure D.1. Maximum Welfare Benefits for a Family of Three, January 1997



[1] These data are from *The 1998 Green Book*, available at http://www.house.gov/ways-means/publica.htm

Table D.1 Maximum Dollar Benefit for Family of Three Persons, Selected Years

	Not Corrected for Inflation				Change	Corrected for Inflation (1997 Dollars)				Change in
	1980	1985	1990	1997	1990-97	1980	1985	1990	1997	Real Value
CPI						51	67	81	100	1990-97
Median State (U.S.)	$288	$332	$364	$377	$13	$561	$495	$447	$377	-15.7%
South Atlantic										
South Carolina	$129	$187	$206	$200	-$6	$251	$279	$253	$200	-20.9%
West Virginia	$206	$249	$249	$253	$4	$401	$371	$306	$253	-17.3%
North Carolina	$192	$246	$272	$272	$0	$374	$367	$334	$272	-18.6%
Georgia	$164	$223	$273	$280	$7	$319	$333	$335	$280	-16.5%
Florida	$195	$240	$294	$303	$9	$380	$358	$361	$303	-16.1%
Delaware	$266	$287	$333	$338	$5	$518	$428	$409	$338	-17.3%
Virginia	$310	$354	$354	$354	$0	$604	$528	$435	$354	-18.6%
Maryland	$270	$329	$396	$377	-$19	$526	$491	$486	$377	-22.5%
DC	$286	$327	$409	$398	-$11	$557	$488	$502	$398	-20.8%
New England										
Maine	$280	$370	$453	$418	-$35	$545	$552	$556	$418	-24.9%
New Hampshire	$346	$389	$506	$550	$44	$674	$580	$621	$550	-11.5%
Rhode Island	$340	$409	$543	$554	$11	$662	$610	$667	$554	-16.9%
Massachusetts	$379	$432	$539	$565	$26	$738	$644	$662	$565	-14.6%
Connecticut	$475	$569	$649	$636	-$13	$925	$849	$797	$636	-20.2%
Vermont	$492	$583	$662	$639	-$23	$958	$870	$813	$639	-21.4%
Mid Atlantic										
Pennsylvania	$332	$364	$421	$421	$0	$647	$543	$517	$421	-18.6%
New Jersey	$360	$404	$424	$424	$0	$701	$603	$521	$424	-18.6%
New York	$394	$494	$576	$619	$43	$767	$736	$707	$619	-12.5%
East North Central										
Indiana	$255	$256	$288	$288	$0	$497	$382	$354	$288	-18.6%
Ohio	$263	$290	$334	$341	-$27	$512	$433	$410	$341	-16.9%
Illinois	$288	$341	$367	$377	-$53	$561	$509	$451	$377	-16.3%
Michigan	$425	$417	$516	$459	$8	$828	$622	$634	$459	-27.6%
Wisconsin	$444	$533	$517	$517	-$89	$865	$795	$635	$517	-18.6%
West North Central										
Minnesota	$417	$528	$532	$532	$0	$812	$788	$653	$532	-18.6%
Iowa	$360	$360	$410	$426	$16	$701	$537	$503	$426	-15.4%
Missouri	$248	$274	$289	$292	$3	$483	$409	$355	$292	-17.7%
North Dakota	$334	$371	$386	$431	$45	$651	$553	$474	$431	-9.1%
South Dakota	$321	$329	$377	$430	$53	$625	$491	$463	$430	-7.1%
Nebraska	$310	$350	$364	$364	$0	$604	$522	$447	$364	-18.6%
Kansas	$345	$391	$409	$429	$20	$672	$583	$502	$429	-14.6%
East South Central										
Mississippi	$96	$96	$120	$120	$0	$187	$143	$147	$120	-18.6%
Alabama	$118	$118	$118	$164	$46	$230	$176	$145	$164	13.2%
Tennessee	$122	$153	$184	$185	$1	$238	$228	$226	$185	-18.1%
Kentucky	$188	$197	$228	$262	$34	$366	$294	$280	$262	-6.4%
West South Central										
Texas	$116	$167	$184	$188	$4	$226	$249	$226	$188	-16.8%
Louisiana	$152	$190	$190	$190	$0	$296	$283	$233	$190	-18.6%
Arkansas	$161	$192	$204	$204	$0	$314	$286	$251	$204	-18.6%
Oklahoma	$282	$282	$325	$307	-$18	$549	$421	$399	$307	-23.1%
Mountain										
Idaho	$323	$304	$317	$317	$0	$629	$453	$389	$317	-18.6%
Arizona	$202	$233	$293	$347	$54	$393	$348	$360	$347	-3.6%
Nevada	$262	$285	$330	$348	$18	$510	$425	$405	$348	-14.1%
Colorado	$290	$346	$356	$356	$0	$565	$516	$437	$356	-18.6%
Wyoming	$315	$360	$360	$360	$0	$614	$537	$442	$360	-18.6%
New Mexico	$220	$258	$264	$389	$125	$429	$385	$324	$389	20.0%
Utah	$360	$376	$387	$426	$39	$701	$561	$475	$426	-10.4%
Montana	$259	$354	$359	$438	$79	$504	$528	$441	$438	-0.6%
Pacific										
Washington	$458	$476	$501	$546	$45	$892	$710	$615	$546	-11.3%
Oregon	$282	$386	$432	$460	$28	$549	$576	$530	$460	-13.3%
California	$473	$587	$694	$565	-$129	$921	$876	$852	$565	-33.7%
Alaska	$457	$719	$846	$923	$77	$890	$1,072	$1,039	$923	-11.2%
Hawaii	$468	$468	$602	$712	$110	$912	$698	$739	$712	-3.7%

2. Trends in Welfare Benefits, 1980-1997

Table D.1 also shows welfare benefits for 1980, 1985, and 1990. Between 1990 and 1997, the median benefit increased by only $13. Benefits were unchanged in fourteen States, including North Carolina, and *fell* in nine others, including South Carolina. Benefits increased by only $7 per month in Georgia. As a result, inflation, although low by historical standards, eroded the real value of welfare benefits substantially. The right-hand side of Table D.1 shows real (inflation-adjusted) benefits in 1997 dollars for various years. The real median benefit fell by 15.7 percent between 1990 and 1997. The largest declines occurred in California (34 percent), Michigan (28 percent) and Maine (25 percent). Benefits declined by 21 percent in South Carolina (7th largest decline in the nation), by 19 percent in North Carolina, and by 16.5 percent in Georgia.

4. Benefits Relative to Earnings in Manufacturing

Comparing welfare benefits across states is complicated by regional differences in the cost of living and labor market productivity. I therefore calculated benefits in each state as a percentage of the earnings of full-time workers in manufacturing, shown in **Figure D.2**.[1] The median benefit was 17 percent of earnings in manufacturing, but varied enormously across states. Alaska paid a relative benefit of 47 percent, followed by Hawaii (33 percent), Vermont (30 percent), and Rhode Island (29 percent). Relative benefits in South Carolina were 11.6 percent of manufacturing earnings, lower than in either North Carolina (14.3 percent) or Georgia (14.4 percent).

Table D.2 shows how relative welfare benefits evolved over time. The median welfare benefit fell from 24 percent of manufacturing earnings in 1980 to 21 percent by 1985. Between 1990 and 1997, relative welfare benefits gradually declined to 17 percent in 1997. Relative welfare benefits fell in South Carolina from 14.7 percent in 1985 to just 11.6 percent in 1997. The pattern was similar in North Carolina. Relative benefits rose in Georgia from 16.5 to 17.9 percent between 1985 and 1990, but had fallen to 14.4 percent by 1997.

[1]Specifically, I collected data from the Bureau of Labor Statistics on average hourly earnings in manufacturing in each state (http://www.bls.gov/). I assumed that full-time workers work 40 hours per week for 50 weeks per year, or 2000 hours per year. Monthly earnings were obtained by dividing annual earnings by 12. The relative welfare benefit was obtained by dividing the monthly payment by monthly earnings in manufacturing, multiplied by 100.

Fig. D.2. Welfare Benefits for Family of Three
Relative to Earnings in Manufacturing, January 1997

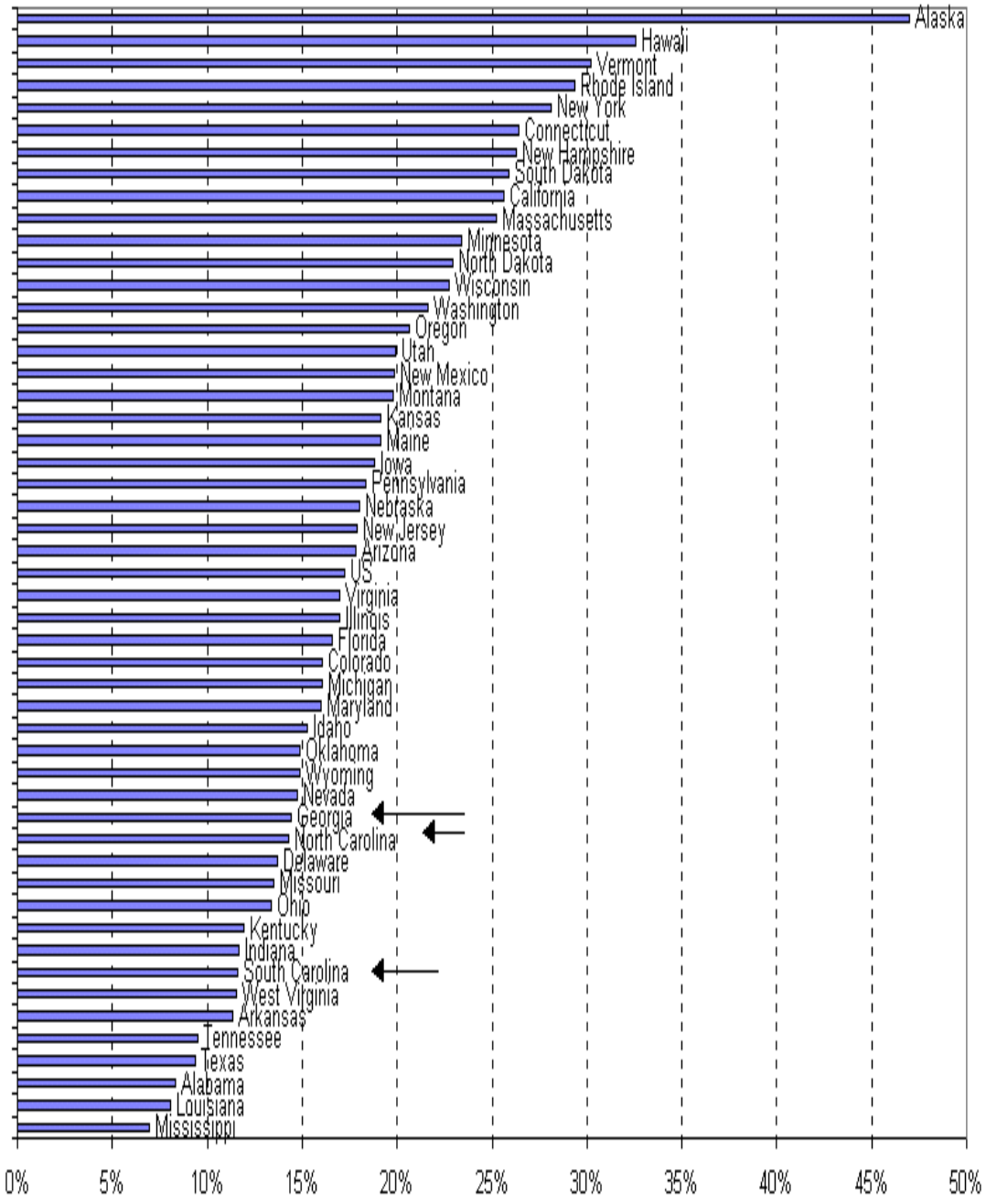
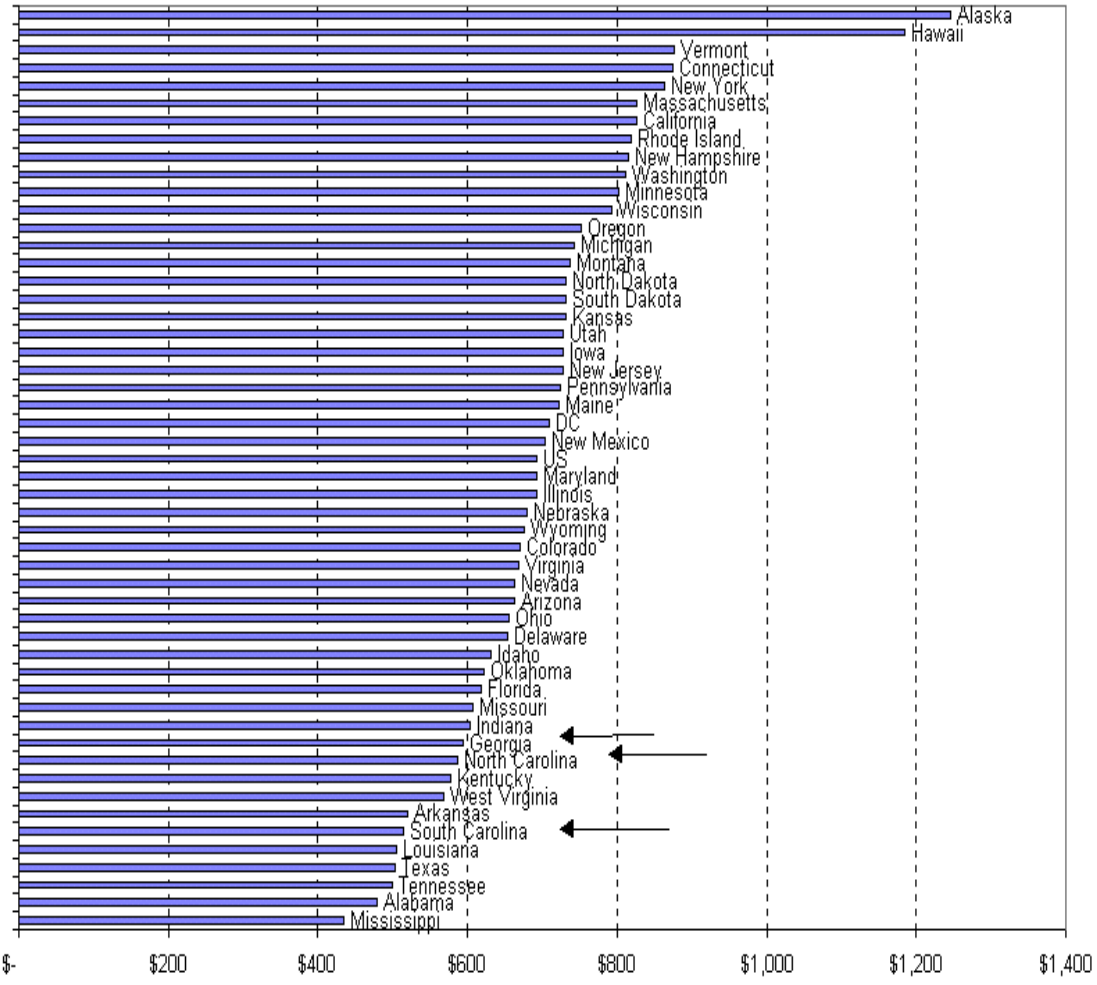


Table D.2. Welfare Benefits Relative to Earnings in Manufacturing						
	1980	1985	1990	1997		Change, 1990-97
US	23.7%	20.9%	20.1%	17.2%		-2.9%
South Atlantic						
West Virginia	15.3%	14.6%	13.0%	11.5%		-1.4%
South Carolina	13.8%	14.7%	14.0%	11.6%		-2.4%
Delaware	21.1%	17.5%	16.1%	13.7%		-2.4%
North Carolina	21.5%	20.2%	18.6%	14.3%		-4.3%
Georgia	17.1%	16.5%	17.9%	14.4%		-3.4%
Maryland	21.3%	20.3%	20.5%	16.0%		-4.5%
Florida	19.6%	18.3%	19.6%	16.6%		-3.0%
Virginia	29.9%	25.0%	21.1%	17.0%		-4.1%
New England						
Maine	28.0%	26.4%	25.7%	19.1%		-6.5%
Massachusetts	34.9%	28.8%	28.4%	25.3%		-3.1%
New Hampshire	35.2%	27.8%	28.0%	26.3%		-1.7%
Connecticut	40.3%	35.7%	33.8%	26.4%		-7.4%
Rhode Island	36.5%	32.3%	34.5%	29.4%		-5.1%
Vermont	48.1%	41.6%	37.8%	30.2%		-7.6%
Mid Atlantic						
New Jersey	29.5%	24.6%	21.6%	17.9%		-3.8%
Pennsylvania	26.2%	22.8%	22.9%	18.3%		-4.5%
New York	32.9%	30.6%	31.1%	28.1%		-2.9%
East North Central						
Indiana			14.4%	11.7%		n/a
Ohio	18.4%	15.3%	15.9%	13.4%		-2.5%
Michigan	26.8%	19.8%	22.3%	16.0%		-6.3%
Illinois	21.5%	19.7%	19.2%	16.9%		-2.3%
Wisconsin	33.2%	31.2%	27.9%	22.7%		-5.2%
West North Central						
Missouri	20.5%	17.2%	16.1%	13.5%		-2.6%
Nebraska	25.2%	23.3%	22.6%	18.0%		-4.6%
Iowa	24.9%	20.9%	21.8%	18.8%		-3.0%
Kansas	28.1%	24.8%	22.4%	19.1%		-3.3%
North Dakota	30.5%	27.7%	25.0%	22.9%		-2.1%
Minnesota	32.9%	31.5%	28.4%	23.4%		-5.0%
South Dakota	29.6%	26.6%	26.7%	25.9%		-0.8%
East South Central						
Mississippi	10.6%	8.0%	8.6%	6.9%		-1.7%
Alabama	10.9%	8.3%	7.5%	8.3%		0.8%
Tennessee	12.0%	11.1%	11.6%	9.5%		-2.1%
Kentucky	15.4%	12.4%	12.8%	11.9%		-0.8%
West South Central						
Louisiana	11.8%	10.9%	9.8%	8.1%		-1.8%
Texas	9.7%	10.6%	10.5%	9.4%		-1.2%
Arkansas	16.9%	15.2%	14.4%	11.4%		-3.0%
Oklahoma	23.0%	17.2%	18.2%	14.9%		-3.3%
Mountain						
Nevada	20.4%	18.7%	17.9%	14.7%		-3.2%
Wyoming	27.0%	22.4%	19.9%	14.9%		-5.1%
Idaho	25.7%	19.4%	17.9%	15.3%		-2.7%
Colorado	22.8%	21.8%	19.5%	16.0%		-3.5%
Arizona	16.6%	14.7%	17.2%	17.8%		0.6%
Montana	17.7%	19.4%	18.7%	19.8%		1.1%
New Mexico	22.8%	18.4%	17.5%	19.9%		2.4%
Utah	30.8%	23.4%	22.5%	19.9%		-2.6%
Pacific						
Oregon	19.6%	22.1%	23.2%	20.6%		-2.6%
Washington	29.2%	24.6%	23.8%	21.6%		-2.2%
California	36.9%	34.8%	36.3%	25.6%		-10.7%
Hawaii	41.1%	32.5%	32.9%	32.6%		-0.3%
Alaska	26.8%	34.1%	40.7%	47.0%		6.3%
Note: Data for DC not available						

5. Including the Value of In-Kind Benefits

Although a comprehensive valuation of in-kind benefits is beyond the scope of this paper, it is worth examining the effect of adding in the value of food stamps.[1] **Figure D.3** shows the combined value of food stamp and welfare benefits in the 50 states and District of Columbia in January 1997[2]

Figure D.3. Combined Welfare and Food Stamp Benefit, January 1997



[1] PRWORA retained AFDC's eligibility limits for the use of Medicaid, and TANF recipients not living with others automatically become eligible for food stamps (Ways and Means 1998, p. 503). Many TANF families also live in subsidized housing. In FY 1995, 8 percent of AFDC families lived in public housing, and 14.5 percent received a HUD or other rent subsidy (Ways and Means 1996, Table 7-26).

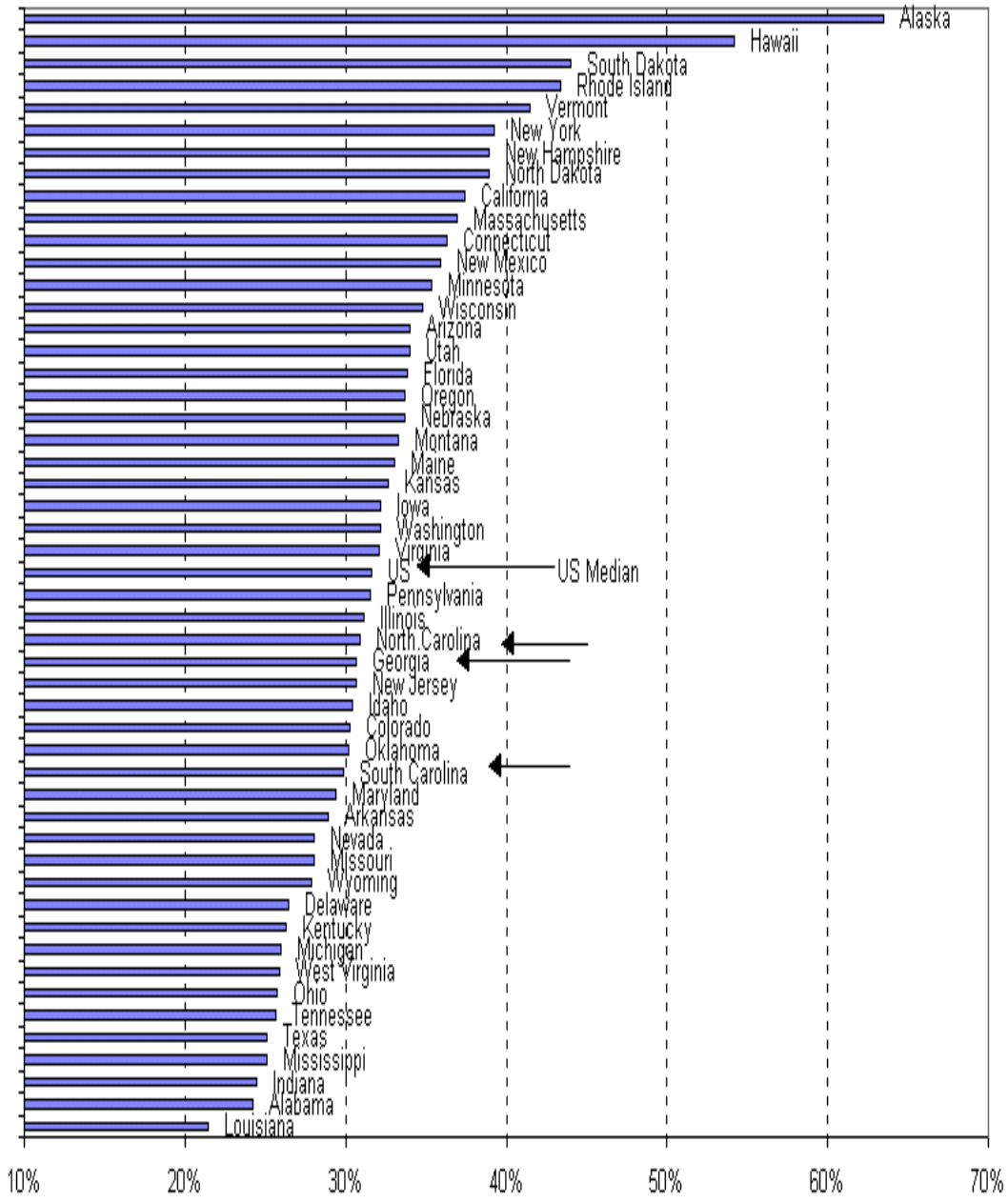
[2] Food stamp benefits were much more uniform across states than welfare benefits, paying $315 in most of the contiguous 48 states. Although food stamp benefits were below $300 per month in a number of states, these states tended to have above-average welfare payments.

Table D.3 shows the data sorted by region. The combined monthly benefit was $515 in South Carolina, $587 in North Carolina and $595 in Georgia, well below the median combined monthly benefit of $692. The monthly benefit ranged from a low of $435 in Mississippi to a high of $1,246 in Alaska. The figure for Alaska is an outlier, however. The highest benefits in the contiguous 48 States were paid in Vermont ($877), Connecticut ($875), and New York ($863).

Figure D.4 shows the combined welfare and food stamp benefit relative to earnings in manufacturing (also shown in Table D.3). The median combined benefit was 32 percent of manufacturing earnings, and ranged from a low of 21 percent in Louisiana to a high of 63.5 percent in Alaska.

Table D.3. Value of Combined Welfare and Food Stampe Benefits				
	Dollar Value of Benefit in 1997			Total Relative to
	TANF	Food Stamps	Total	Manufacturing
US	$377	$315	$692	31.6%
South Atlantic				
West Virginia	$253	$315	$568	25.9%
Delaware	$338	$315	$653	26.5%
Maryland	$377	$315	$692	29.4%
South Carolina	$200	$315	$515	29.9%
Georgia	$280	$315	$595	30.7%
North Carolina	$272	$315	$587	30.9%
Virginia	$354	$315	$669	32.1%
Florida	$303	$315	$618	33.9%
DC	$398	$311	$709	n/a
New England				
Maine	$418	$305	$723	33.1%
Connecticut	$636	$239	$875	36.3%
Massachusetts	$565	$261	$826	36.9%
New Hampshire	$550	$265	$815	39.0%
Vermont	$639	$238	$877	41.4%
Rhode Island	$554	$264	$818	43.4%
Mid Atlantic				
New Jersey	$424	$303	$727	30.6%
Pennsylvania	$421	$304	$725	31.6%
New York	$619	$244	$863	39.3%
East North Central				
Indiana	$288	$315	$603	24.5%
Ohio	$341	$315	$656	25.7%
Michigan	$459	$284	$743	25.9%
Illinois	$377	$315	$692	31.1%
Wisconsin	$517	$275	$792	34.8%
West North Central				
Missouri	$292	$315	$607	28.1%
Iowa	$426	$302	$728	32.2%
Kansas	$429	$302	$731	32.6%
Nebraska	$364	$315	$679	33.7%
Minnesota	$532	$271	$803	35.3%
North Dakota	$431	$301	$732	38.9%
South Dakota	$430	$301	$731	44.0%
East South Central				
Alabama	$164	$315	$479	24.2%
Mississippi	$120	$315	$435	25.1%
Tennessee	$185	$315	$500	25.6%
Kentucky	$262	$315	$577	26.3%
West South Central				
Louisiana	$190	$315	$505	21.4%
Texas	$188	$315	$503	25.1%
Arkansas	$204	$315	$519	28.9%
Oklahoma	$307	$315	$622	30.2%
Mountain				
Wyoming	$360	$315	$675	27.9%
Nevada	$348	$315	$663	28.1%
Colorado	$356	$315	$671	30.2%
Idaho	$317	$315	$632	30.4%
Montana	$438	$299	$737	33.3%
Utah	$426	$302	$728	34.0%
Arizona	$347	$315	$662	34.0%
New Mexico	$389	$314	$703	35.9%
Pacific				
Washington	$546	$266	$812	32.1%
Oregon	$460	$292	$752	33.7%
California	$565	$261	$826	37.4%
Hawaii	$712	$472	$1,184	54.2%
Alaska	$923	$323	$1,246	63.5%

Figure D.4. Combined Welfare and Food Stamp Benefit Relative to Earnings in Manufacturing, 1997



6. Discussion

How much of the variation in welfare caseloads across states is due to variation in welfare benefits? I graphed FY 1998 welfare caseloads as a function of the combined welfare and food stamp monthly benefit for the 50 states.[1] I examined this relationship using benefits measured both in absolute levels, shown in **Figure D.5a**, and relative to manufacturing, shown in **Figure D.5b**. Each graph also contains the line of best fit.[2]

In both cases, caseloads were strongly positively related to welfare benefits. However, it is easily seen that the line fits the data better in Figure D.5a than in Figure D.5b. The objective statistics also support this contention. Variation in the absolute level of benefits explains 19 percent of the variation in caseloads across states, while variation in relative benefits explains only 12 percent of the variation.

Of course, benefits are not the only determinant of caseloads. Wallace and Blank (1999) pointed out that because the real value of AFDC benefits fell between 1985 and 1990, AFDC caseloads should have declined. The rise in caseloads that occurred instead is all the more puzzling because unemployment rates fell and median wage rates rose between 1985 and 1989. The stubborn persistence of welfare caseloads may help explain why so many observers felt that AFDC had to be replaced. It is therefore appropriate to turn our attention to three papers that examined the impact of welfare reform.

[1] I deleted Washington, D.C., an extreme outlier. This had no impact on the basic conclusions

[2] The lines of best fit were estimated using ordinary least squares.

Fig. D.5a. Welfare Caseloads Versus Combined and Food Stamp Benefit

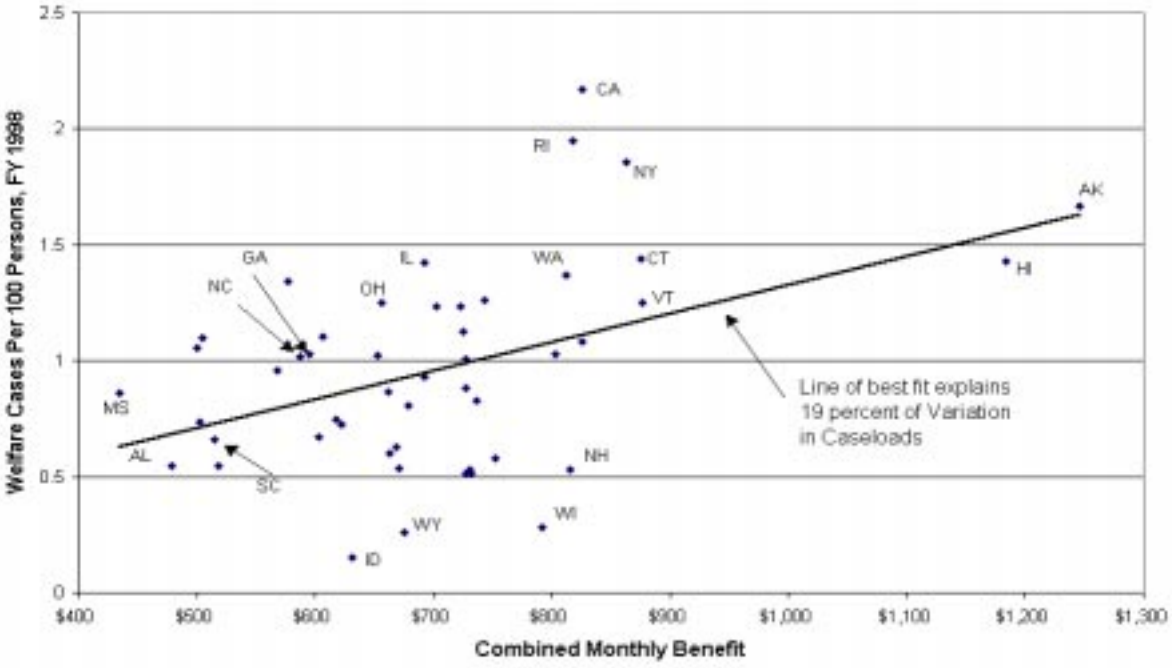
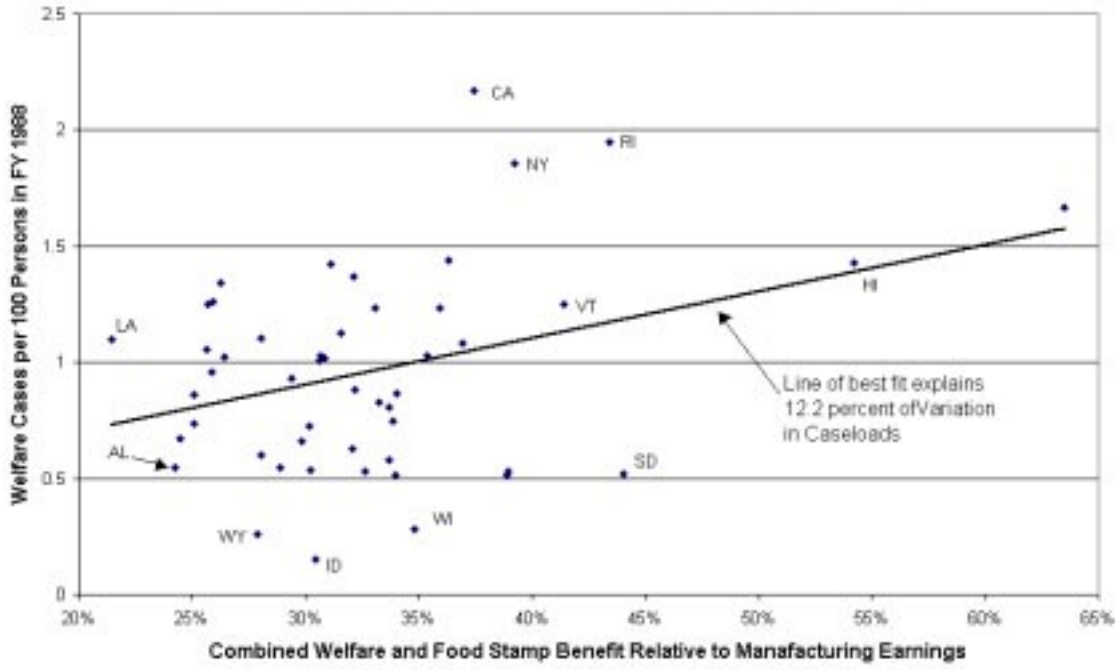


Fig.D.5b. Welfare Caseloads Versus Combined Relative Benefit



E. Estimating the Impact of Welfare Reform

I focus on three recent econometric studies of welfare caseloads that analyzed the effects of welfare reform, either as a result of PRWORA or 1115 waivers prior to its passage.

1. Stapleton et. al. (1997)

Stapleton et. al. (1997) estimated models for caseload growth using quarterly data on a panel of states over the 1982-1996 period. Highlights of their findings included the following.

1. They found very large effects of the unemployment rate on caseload growth. A one-percentage point increase in the unemployment rate was estimated to raise basic caseload growth by 26 percent in the long run.
2. Welfare benefits had large, positive effects on caseloads. A 10 percent increase in the average monthly benefit was estimated to increase caseloads by 2.7 percent after one year.
3. Declines in marriages and increases in non-marital births were strongly correlated with (basic) caseload growth.[1]
4. Although only a few states had implemented Section 1115 waivers during the period they studied, they found that states that had implemented family caps reduced caseloads by 2.5 percent.

Unfortunately, the models estimated by Stapleton et. al. (1997) are not directly comparable to those estimated by other researchers.[2] Although they contended that their estimates were still useful for analyzing which factors contribute to caseload growth, some of their results – for example, the extremely large effect of unemployment—may be a result of their approach.[3]

[1] The direction of causality, however, is an open question.

[2] Specifically, their dependent variable was not welfare participation in a given state at a given time, but welfare participation adjusted for expected participation based on national trends.

[3] The authors admitted that the complexity of their model "may diminish the ability of policy makers and others to understand and use the findings" (III.C.2).

2. Rector and Youssef (1999)

Rector and Youssef (1999) analyzed the percentage reduction in state welfare caseloads between January 1997 and June 1998. Their analysis focused on the effect of work requirements. Specifically, they examined whether caseloads fell by more in states that had immediate work requirements and implemented stronger sanctions for failing to meet work requirements. To measure the severity of sanctions, Rector and Youssef used Burke and Gish's (1998) classification scheme in which states were divided into four groups: initial full-check sanction, delayed full-check sanction, moderate sanction, and weak sanction. States with an initial full-check sanction have the option of terminating TANF payments at the first instance of non-performance or non-compliance. Delayed full-check sanction states terminate benefits only after a period of noncompliance. Moderate sanction states may reduce benefits by a third or more, and weak sanction states only terminate the adult portion of the TANF check (p. 3).

Rector and Youssef (1999) estimated that states imposing initial full sanctions experienced 24.8 percent larger declines in welfare caseloads compared with weak-sanction states, followed by delayed full sanction states (13.7 percent) and moderate sanction (11.3 percent) states.

There are several difficulties with their study. First, although they controlled for unemployment, it was statistically insignificant, and even more problematic, had the wrong sign.[1] Second, their methodology was different from that used by other authors. Specifically, they examined the percentage reduction in welfare caseloads between January 1997 and June 1998. It is very difficult to adequately control for the effects of economic conditions using data at only two points in time.[2] Finally, they did not examine the effects of other differences in welfare policy across states, instead focusing exclusively on work requirements. For these reasons, further research would seem to be necessary before firm conclusions can be drawn.

[1] Specifically, they included as a regressor the average rate of unemployment in the State over the 18-month period they examined. The perverse estimated effect was statistically significant at the 13 percent level, which suggests that their model is misspecified.

[2] Because the population of welfare recipients is small in most states, relatively minor events can have relatively large effects on the percent change in welfare caseloads. In addition, welfare caseloads have strong seasonal components in many states that are not necessarily identical (e.g., Montana and Florida). Third, the effects of economic conditions tend to operate with long – up to two years or more — and variable lags.

3. Wallace and Blank (1999)

Wallace and Blank (1999) estimated the relationship between caseload changes, overall economic prosperity, and the implementation of AFDC waivers that allowed states to run experimental welfare programs prior to the 1996 welfare reform legislation. Their study utilized state-level data at both annual and monthly frequencies. The annual data were for the period 1980-1996, and their monthly data were for the period 1980-1998. Their findings included the following.

1. A one-percentage point increase in unemployment increases caseloads by between 4 and 6 percent. This effect, much smaller than that estimated by Stapleton et. al., is closer to that estimated by other researchers.
2. A 10 percent increase in the median wage is associated with a decline in caseloads of between 3 and 6 percent.
3. States with higher levels of education had lower AFDC caseloads.
4. Increased (maximum) AFDC benefit levels are associated with higher caseloads. Each 10 percent increase in benefits is associated with an increase in caseloads of between 2 and 5 percent.
5. Each one percentage point increase in the proportion of non-marital births is associated with about a one percent increase in AFDC caseloads.
6. The election of a Republican governor is associated with a decline in AFDC caseloads of between 4 and 6 percent.
7. The results using annual data indicate that States that implemented welfare waivers experienced declines of between 4 and 10 percent in their caseloads. The estimates using monthly data indicate that waivers reduced caseloads by between 28 and 35 percent.

4. Discussion

Estimating the effects of welfare reform on welfare caseloads is problematic for several reasons. First, the data requirements are substantial. The effects of economic factors – unemployment, for example — are arguably better estimated using monthly data, especially if one is interested in sorting out short-run from long-run effects. However, data on many demographic variables –immigration, race, and age structure – are available only at an annual frequency. Second, it is tricky to estimate the effect of certain demographic trends — for example, divorce and

birth rates to single teens – on welfare caseloads because the direction of causality is not always clear. Put simply, do higher divorce and teen birth rates cause caseload growth, or do factors that contribute to caseload growth cause higher divorce and teen birth rates?

Finally, it is difficult to sort out the behavior of program participants from that of program administrators. Stapleton et. al. (1997) and Wallace and Blank (1999) could not sort out whether states that implemented welfare reform experienced greater caseload reductions because of greater willingness of welfare participants to work, or because caseworkers exerted greater effort to move recipients into the labor market. The sanction classification scheme used by Rector and Youssef is arguably a better way to separate the incentive for welfare recipients to find work from the incentive of administrators to reduce welfare rolls. Even their approach, however, is not immune from criticism. States more dedicated to reducing their welfare caseloads may have implemented stricter work requirements.

Despite their problems, the studies are useful. For one, it may not be essential to know exactly *how* welfare reform is working. As long as no important variables omitted from the model, unbiased estimates of the effects of reform can be obtained by comparing states with various levels of reform. Fortunately, Wallace and Blank (1999) found that excluding demographic factors from models of caseload growth had little effect on the estimated effects of economic factors or welfare reform.

In the next Section, I implement the approach of Wallace and Blank (1999) to estimate the effects of welfare reform on welfare caseloads using data from South Carolina's 46 counties. Although I used a relatively small number of variables in my analysis, the results of Wallace and Blank (1999) suggest that my estimates should not be too far off the mark.

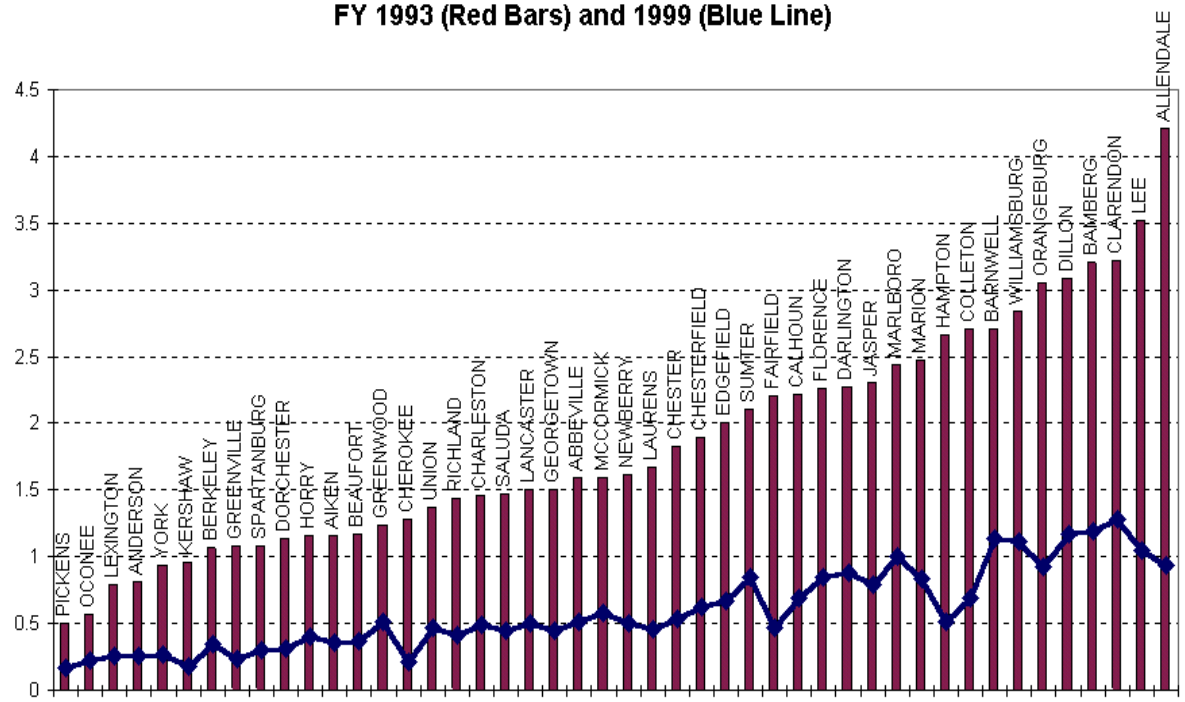
F. Estimating the Impact of Welfare Reform in South Carolina

In this section, I estimate the impact of welfare reform in South Carolina. First, however, I examine patterns of welfare participation across South Carolina's 46 counties. In addition to providing a useful overview of the data, they shed light on factors that help explain differences in welfare caseloads across the state.

1. Trends in Caseloads

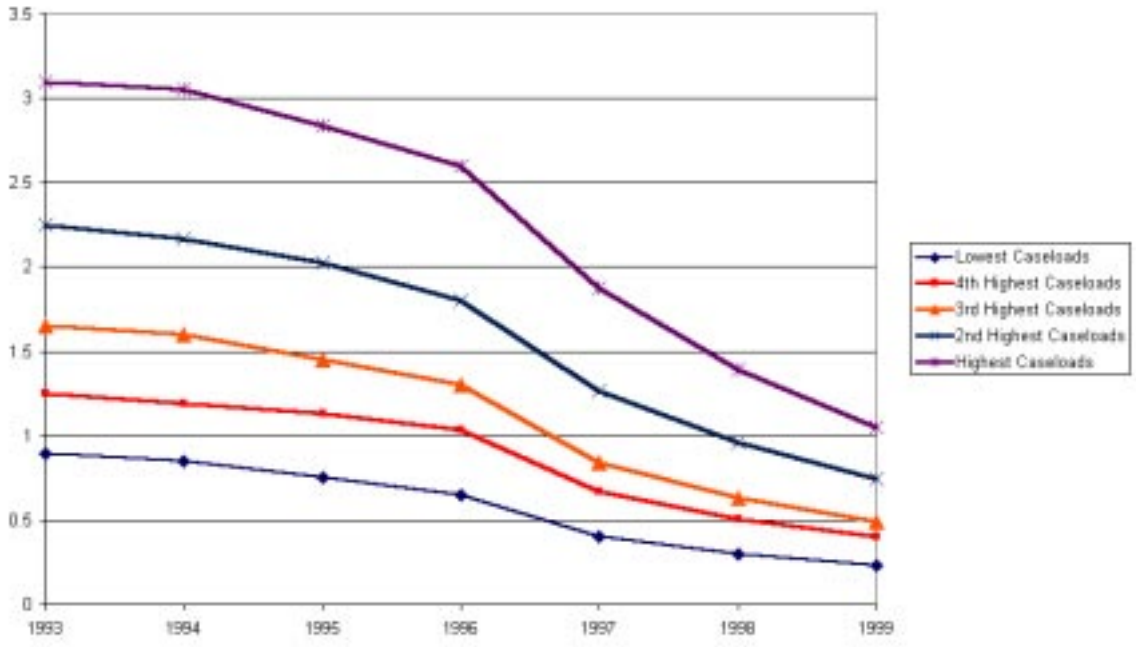
Figure F.1 shows welfare caseloads per 100 persons for the fiscal years 1993 (red bars) and 1999 (blue line). The median caseload rate in 1993 (McCormick and Newberry Counties) was about 1.5 cases per 100 people, and ranged from 0.5 (5 cases per thousand people) in Pickens County to 4.2 in Allendale County. Between 1993 and 1999, welfare participation plummeted in every county. By 1999, the median caseload was 0.5 per 100 people, and ranged from 0.2 cases per hundred people in Pickens County to 1.3 cases per hundred people in Clarendon County.

Figure F.1. Welfare Caseloads per 100 Persons in South Carolina by County: FY 1993 (Red Bars) and 1999 (Blue Line)



Counties with higher welfare participation in 1993 tended to have higher participation in 1999. However, the variation in welfare participation declined markedly. For example, in 1993, the highest welfare participation rate (Allendale, 4.2 cases per 100 people) was eight times the lowest (Pickens, 0.5 cases per 100 people). In 1999, the highest welfare participation rate (Clarendon, 1.3 cases per 100 people) was only 6.5 times higher than the lowest (Pickens, 0.2 cases per 100).
To illustrate this convergence, I divided counties into five groups based on their average welfare caseload between 1993 and 1999. The first group contained the nine counties with the lowest average caseloads, the second group contained the nine counties with the next-lowest caseload rate, and so on. I then calculated the average caseload rate in each group of counties in each year.[1] The results are shown in **Figure F.2**.

Figure F.2. Welfare Caseloads per 100 Persons FY 1993-1999: Counties Grouped by Average Caseloads per Person



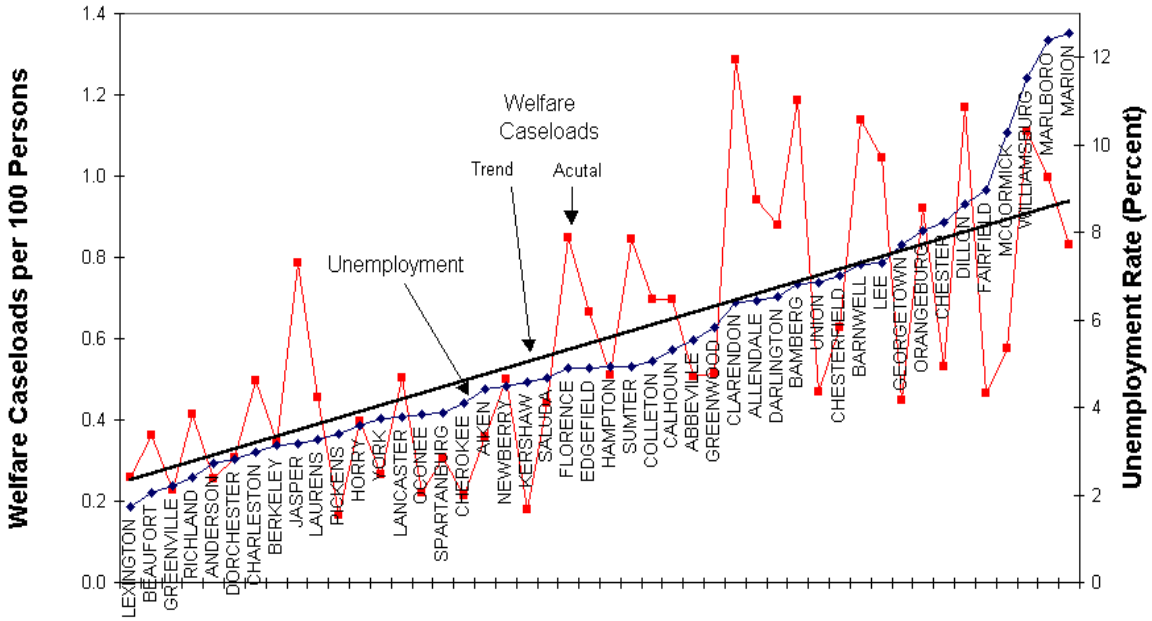
The convergence in caseload rates is easily visible in Figure F.2. Caseloads in the highest group fell from about 3 per 100 persons to a just more than 1 per 100 persons between 1993 and 1999. Caseloads in the lowest group fell from just under 1 per 100 people in 1993 to 0.25 per 100 in 1999.

[1] These were unweighted averages.

2. Differences in County Welfare Caseloads: A Graphical Analysis

Caseloads and Unemployment. Researchers have estimated a significant relationship between economic conditions and welfare caseloads. To examine this relationship across South Carolina's 46 counties, I collected data on the average unemployment rate in FY 1999 (through July). I sorted the counties by unemployment rate, and graphed both the unemployment rate and FY 1999 welfare caseloads per 100 persons on the same graph, shown in **Figure F.3**. In addition, I have drawn a trend line (using ordinary least squares) through welfare caseloads (the straight black line). Notice that this trend line has a positive slope, indicating that counties with higher unemployment rates tended to have higher welfare caseloads as well.

Figure F.3. Welfare Caseloads per 100 Persons and Unemployment Rate in 46 South Carolina Counties, 1999

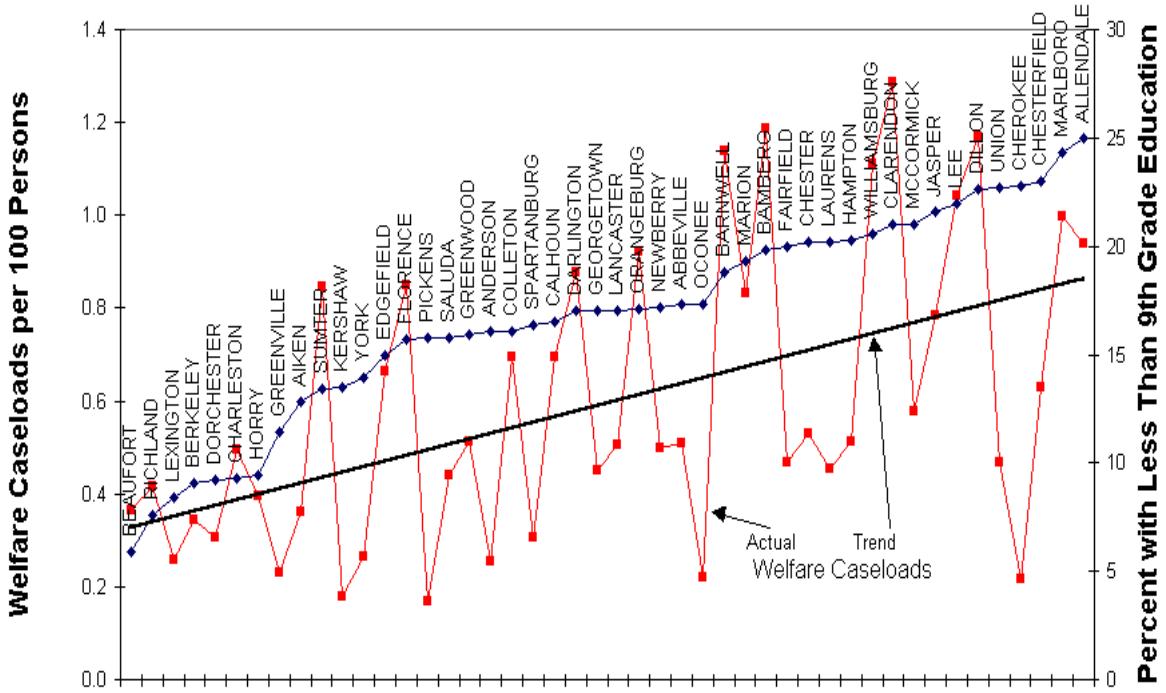


Although the relationship between unemployment and welfare caseloads is strongly positive, a question of interpretation arises. Unemployment rates – especially in the cross section –measure the vitality of the economy not only on the demand side, but

on the supply side as well. Less skilled individuals are more likely to be unemployed, for a variety of reasons.[1]

Caseloads and Education. I collected data on the percentage of the population (in 1990) with less than a ninth grade education. I sorted counties by education level and graphed education level along with welfare caseloads for FY 1999, in **Figure F.4**. Again, I have drawn a trend line through welfare caseloads. As can be seen, this trend line has a strongly positive slope, indicating that counties with lower levels of skill had higher welfare caseloads.

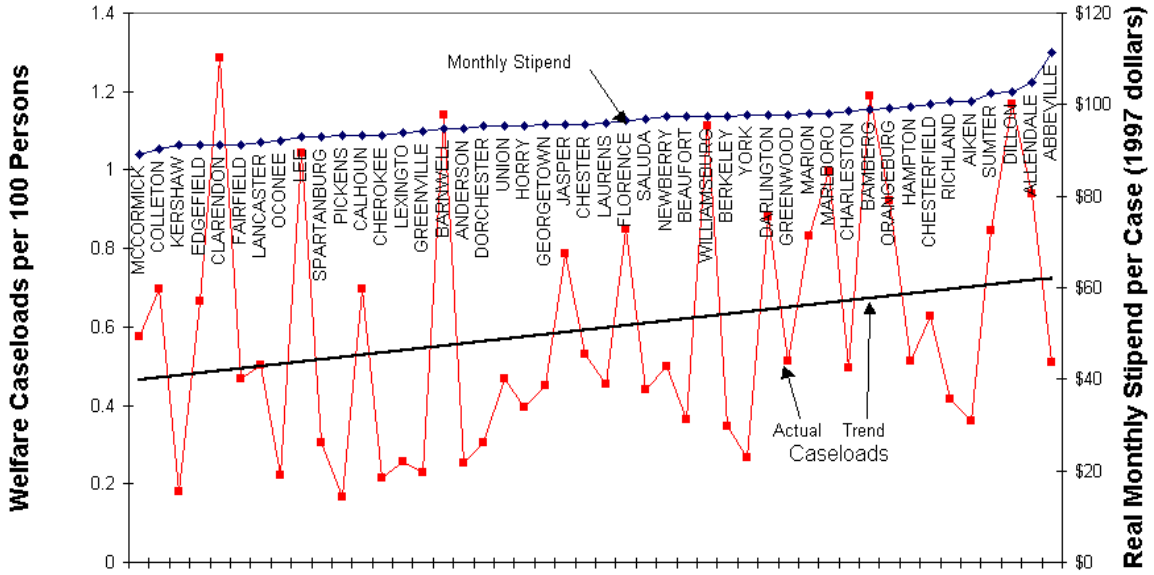
Figure F.4. Welfare Caseloads per 100 Persons in 1999 and Percent of Individuals with Less than Ninth Grade Education



[1]According to one theory, layoffs are less likely among those whose labor input is a less variable factor. For example managerial employees may be needed even if when output is temporarily below its normal level. Such individuals tend to be more skilled. However there are competing explanations. First, the returns to work (that is, earnings) are lower for less skilled individuals. Higher unemployment could be capturing the effects of such differences. According to another theory, individuals' labor supplies are very responsive to changes in the demand for labor demand. When demand falls, this theory argues, individuals withdraw from the labor market rather than accepting wage reductions.

Caseloads and Welfare Stipends. Welfare stipends are primarily a function of family size, but also depend on the labor market earnings of recipients as well as income exclusions, which are determined by caseworkers. I collected data by county on the average monthly stipend per case for FY 1999 (through July). I sorted the counties from low to high and graphed the average stipend, along with welfare caseloads per 100 workers, in **Figure F.5**.

Figure F.5. Welfare Caseloads per 100 Persons in 46 South Carolina Counties and Monthly Stipend per Case, FY 1999



The monthly real welfare stipend per case (in 1997 dollars) varied from $89 (McCormick County) to $111 (Abbeville County). As can be seen by the positively sloped (straight) trend line, caseloads were higher in counties with higher average welfare stipends.

In summary, we have found welfare caseloads to be positively related to the rate of unemployment, negatively related to the level of education, and positively related to the average welfare payment. However, these variables are not independent of one another. To sort out these effects, as well as others, is best done using regression analysis, to which we now proceed.

3. Regression Analysis Using Annual Data

To conveniently summarize patterns in the data, I estimated a regression model in which the dependent variable was the natural logarithm of welfare cases per 100 persons. I estimated the model for the calendar years 1994 through 1999.[1] For explanatory variables, I tried including the three variables we have already examined: the average annual rate of unemployment, the percent of the population with less than a ninth grade education, and the natural logarithm of the average monthly welfare stipend. I added the following additional explanatory variables: the percentage of the population that was 65 years old or older (in 1990), median household income (in 1989), and an indicator for whether the county was in a metropolitan area. Finally, I included dummy variables for year to pick up the effects of welfare reform, which went into effect in mid-1997.

The results are contained in **Table F.1**. Because I could not obtain reasonable estimates of the effects of education, I used average SAT scores as a proxy.[2]

Table F.1. South Carolina Welfare Caseload Regression Results, Annual Data

Effect on Welfare Caseloads of:	
1 percentage point increase in unemployment rate	+3.5 percent
10 percent increase in welfare stipend	+2.5 percent
10 percent increase in percent 65 years or older	-7.6 percent
10 percent increase in median household income	-16.5 percent
10-point increase in SAT average	-1.2 percent
Location in a metropolitan area	-10.5 percent
Year Effects	
1994	Normalized to zero
1995	+5.5 percent
1996	+3.5 percent
1997	-21.7 percent
1998	-42.3 percent
1999	-37.0 percent
R-Square	0.834
Observations	276

[1] I was missing caseload data for January 1994. This will have little impact on the estimates. The data for 1999 were through July.

[2] Despite the strong negative relationship between education and caseloads shown in Figure F.4, I consistently obtained negative (partial) effects of education on caseloads. The problem arises because education is highly correlated with unemployment and median household income. Entering two highly correlated variables in a regression model can often result in an exaggerated estimated effect of one variable in the "right" direction and a large estimated effect in the "wrong" direction of the other.

The estimated effect of unemployment was similar to that estimated by Wallace and Blank (1999) when they used annual data. Each percentage point increase in unemployment was associated with a 3.5 percent increase in welfare caseloads per 100 persons. Each 10 percent increase in welfare stipends was associated with a 2.5 percent increase in caseloads. Not surprisingly, counties with larger elderly populations had lower caseloads. Nor was it surprising that counties in metropolitan areas, with their greater labor market opportunities, also had much lower caseloads, other things the same.

Each additional 10-point increase in average SAT was estimated to reduce the welfare rolls by 1.2 percent. This is important because aside from welfare stipends, this is the one variable at least partly under the control of policy makers.

The year effects capture variations in caseloads over time that are not explained by the variables included in the model. If one interprets the estimated coefficients on the year effects since 1997 as due to the effects of welfare reform, the results are large indeed. According to these estimates, caseloads in 1997 were 21.7 percent lower than they otherwise would have been as a result of welfare reform. The estimated effects of welfare reform were even larger in 1998 and 1999: 42.3 and 37.0 percent, respectively. These effects were much larger than those obtained by Wallace and Blank (1999).[1] The year effects could be capturing some variable left out of the model. It is, however, difficult to think of variables that could account for such a steep decline over such a short period of time.[2] One possibility is that the model did not have adequately controlled for the effects of the economic expansion on welfare caseloads. One way to improve on this is to estimate a model using monthly data, to which I now turn.

4. Regression Analysis Using Monthly Data

I estimated caseload regressions using monthly data in South Carolina's 46 counties for the period between February 1994 and July 1999. Due to a combination of

[1] They estimated three models using the annual data, obtaining estimated effects of welfare reform of 4, 7, and 10 percent. The lowest estimate was obtained in a model that included state-specific time trends. These variables will tend to soak up much of the estimated effects of welfare reform. The highest estimate was obtained in a model that included only unemployment as an explanatory variable. The remaining model included controls for a wide variety of demographic and political variables.

[2] I did not include county fixed effects because this would have made it impossible to estimate most of the effects included, which do not vary over time within a county. Moreover, deleting these variables and including county fixed effects the estimated year effects were even larger. I emphasize the more conservative estimates, which were more consistent with the results obtained using monthly data.

time and data constraints, the model was fairly sparse. Fortunately, the effects estimated here should not be much affected by the variables left out of the model. [1] The dependent variable was the percent change in welfare caseloads per person in a given county in a given month. The explanatory variables included:

1. Current and 24 lagged changes in unemployment rates at the county level;
2. Month of the year to control for seasonality;
3. A fixed effect (dummy variable) for each county. The county effects control for factors associated with a county that do not vary over time (or vary only slowly), including education, age structure, and median income;
4. Current and 6 lagged changes in average welfare stipend per caseload at the county level, by month; and
5. Current and 20 lagged changes in welfare waivers.[2]

The results are shown in **Table F.2**.

Table F.2. Regression Results, SC Caseloads, Monthly Data	
Effect on welfare caseloads of:	
One percentage point increase in unemployment rate	+3.0 percent
Ten percent increase in average monthly welfare stipend	+6.2 percent
Impact of welfare reform after 20 months	-33.2 percent
R-Square	0.34
Observations	1886

The estimated effects of unemployment were again similar to those obtained by Wallace and Blank (1999). Each percentage point increase in unemployment was estimated to increase welfare caseloads by about 3.0 percent. Each 10 percent increase in the real welfare stipend was estimated to increase caseloads by 6.2 percent, a

[1] It is unlikely, for example, that the adoption of welfare reform was due to unusually large increases in the flow of immigration or divorce. Wallace and Blank (1999) found that including such variables usually had only minor effects on the estimated effects of the other variables.

[2] I tried including current and lagged changes in real wage rates in manufacturing at the state level. However, the estimated coefficients on wages were unrealistically large. I therefore omitted the variable from the analysis. Closer examining revealed that there was simply insufficient variation in manufacturing wages over the period I studied to obtain meaningful estimates. The wage data were at the state level and not the county level. This means that the effects were identified entirely based on time-series variation. Real wages in manufacturing declined steadily between 1993 and 1997 from about $11.20 per hour (in 1997 dollars) to $10.60, and were virtually flat between 1997 and 1999. The problem of estimating relationships when there is insufficient variation is well known. When one uses data on all states (such as Wallace and Blank 1999), cross-section variation helps identify the effects of wages on caseloads, even over relatively short time periods.

considerably larger effect than I estimated using the annual data (see Table F.1). Finally, welfare reform was estimated to have reduced caseloads by 33 percent. This estimate was in the same ballpark as obtained by Wallace and Blank (1999) in their monthly analysis (their estimates ranged from 28 to 35 percent).

5. Assessing the Effect of Welfare Reform

How much of the decline in caseloads in South Carolina can be attributed to welfare reform? Between 1994 and 1998, caseloads in South Carolina fell from 51,925 to 25,293, or by about 51 percent (see Table C.3). One might begin by asking how much welfare rolls would have declined if nothing else had changed other than the rate of unemployment. Over this period, the unemployment rate fell from 6.3 to 3.8 percent, or by 2.5 percentage points. The monthly results imply a 7.5 percent decline in cases (a decline of 3,894) to 48,031. Over the same period, welfare benefits declined by 23, implying an additional decline of 14.3 percent (of 48,031) or 6,868. The impact of these two factors combined is a decline of 10,762 cases to 41,163. The actual decline was 26,632, so trends in unemployment and welfare benefits explain roughly 40 percent of the actual decline of 26,632. This leaves an unexplained decline of 15,870.

What if neither unemployment nor welfare stipends had changed? The model predicts that caseloads would have declined by about one third (of 51,925), or 17,135. This is very close to the unexplained decline of 15,870. Relative to the initial caseload level of 51,925, the estimates suggest that welfare reform can account for between 31 and 33 percent of the caseload decline.

6. Final Remarks

Policy makers have a limited number of tools to reduce welfare caseloads below their current level. Welfare benefits are lower than at any time in recent history. Benefits would have had to fall by 48 percent (monthly analysis) to have the same impact as welfare reform. The most important variable under the control of policy makers is education. This is particularly important in South Carolina, which continues to lag the nation in this area. It might appear that welfare caseloads are relatively insensitive to changes in SAT scores. However, smarter children earn higher incomes, which have a powerful negative effect as well. In the long run, education is clearly one key.

G. Suggestions for Future Research

A number of other important issues are associated with welfare reform.

1. Nutrition

According to a report by the Department of Agriculture, The number of people receiving food stamps fell by over 5.9 million between the summers of 1994 and 1997, with most of the decline occurring between September 1996 and September 1997 (USDA 1999). Although this decline occurred during a period of strong economic growth, the USDA reported anecdotal evidence – increased demand for assistance at food pantries and soup kitchens — that some people leaving welfare may not realize that they remain eligible for food stamps. Because nutrition is so crucial to the physical, mental, and intellectual development of children, special attention may need to be devoted to ensure that families leaving welfare are aware of all of their options.[1]

2. Economic Development and Residential Mobility

Despite a state average unemployment rate of 4 percent through July 1999, unemployment exceeded 10 percent in several counties. The old welfare system may have had the undesirable side effect of reducing the incentive of individuals to move out of declining communities. An important topic for future research is to examine the impact of welfare reform on residential mobility of individuals in less prosperous communities.

3. Wealth Formation

The new welfare law allows states to set asset limits, including the setting up of restricted savings accounts. South Carolina allows individuals to accumulate up to $10,000 in such an account. The incentive to take advantage of such accounts is limited because the use of funds is restricted to purchase of post-secondary education or a home. However, the prospect of being allowed to save for a new home could be of interest to individuals on public assistance, particularly those who live in public housing.

[1] Wallace and Blank (1999) found that the implementation of Section 1115 welfare waivers was negatively correlated with food stamp utilization. They speculated that food stamp recipients "may experience some of the same demonstration effects as AFDC recipients … without clearly distinguishing that it does not apply to the Food Stamp program" (p.16).

4. Family Size and Strucutre

Most states continue to pay higher initial welfare benefits to larger families. Family cap provisions do, however, prevent welfare benefits from increasing to families already receiving welfare benefits. Whether such caps indeed reduce the incentive of young single mothers on welfare to bear additional children is an open question. Such caps may also have unintended consequences. A report by Rutgers University estimated that New Jersey's family cap law resulted in 240 more abortions per year for poor women.[1] Although no one case study can be conclusive, family caps do seem to reduce the incentive of young single women on welfare to care for their unborn children. Whether such caps reduce unwanted pregnancies – either through abstention or more careful birth control – is an important topic for future research.[2] Family caps may also give young women a greater incentive to develop stable family relationships.[3]

5. Less-Skilled Labor Markets

As a result of welfare reform, large numbers of less-skilled individuals have entered the labor market. Without a correspondingly large increase in demand, this places downward pressure on the wage rates of less-skilled workers. An important topic for future research is to examine whether these effects can be detected in the data. Second, the ability of less-skilled individuals to find work may be hampered by increases in the minimum wage. The question arises whether the transition from welfare to work was more difficult in states that have set minimum wages above that mandated by federal law. Finally, federal welfare reform legislation forbids payment of TANF funds to non-high school graduates under 18 years of age unless they are enrolled in school. An important topic for future research is to determine whether the law has reduced the number of high school dropouts.

[1] "Family Cap Increases Abortions," **http://www.wcla.org/**.

[2] Teen birth rates declined by 16 percent from 1991 to 1997 – the sixth year in a row that the teen birth rate declined (HHS News Release, **http://www.hhs.gov**). Separating out the effect of welfare reform from this trend will be particularly important.

[3] Although welfare has been blamed for the rise in the number of single female-head households in the U.S., other forces – for example, no-fault divorce — are at work. A number of studies were carried out in the 1980s found evidence in support of this hypothesis. However, it appears that the magnitude of the estimated effects were too small to explain the increase in female headship in the 1960s and early 1970s (Moffitt, p. 31).[3]

H. Concluding Remarks

A large body of research suggests that tinkering with the old system was unlikely to reduce substantially the number of people on the welfare rolls.[1] According to Moffitt (1992), "An extraordinarily low percentage" of female heads of household on AFDC worked – never more than 18 percent between 1968 and 1987, and only 6 percent in 1987 (p. 11). Moreover, the labor supply of female heads of household was relatively insensitive to changes in AFDC benefit levels, benefit reduction rates, or benefit-earnings ratios. Moffitt concluded, "This extreme inelasticity does not augur well for the prospect of increasing work effort by any change in benefits or benefit-reduction rates" (p. 13).

Thus far, welfare reform appears to be a great success. In the TANF Report to Congress, it was reported that 31.5 percent of single mothers who had received AFDC in the previous year were working in March 1997, up from 25 percent in 1996, 21 percent in 1993, and 19 percent in 1992.[2] A study of individuals who left welfare in South Carolina found that 59 percent were working six months after leaving the program. A similar Maryland study found 51 percent of all welfare leavers had worked in the first quarter, and 42 percent in each of the three quarters after going off welfare. Moreover, all 50 states and the District of Columbia met the overall work participation requirement for all families in 1998, the first full year of the welfare reform law. Fully 23 percent of recipients were employed, compared to less than 7 percent in 1992 and 13 percent in 1997.[3]

The exhilaration may need to be tempered, for a number of reasons. First, welfare reform has been in effect for too short a time for the five-year lifetime limit to have become binding. Second, the nation is experiencing the fastest rate of economic growth since the early 1960s. The next recession will test the resolve of the nation to continue the reforms. However, it may not be necessary to wait until the next recession. Bill Bradley, Democratic candidate for President, has vowed to repeal welfare reform if elected. This would appear to be an overreaction, but it is only prudent to prepare for the inevitable difficulties before they occur.

[1] Moffitt's (1992) analysis of the incentive effects of the old U.S. welfare system included a comprehensive review of the empirical literature.

[2] Table 3.2.

[3] The success is not unqualified. A number of states, including North Carolina, failed to meet the two-parent participation rate. Such states may either submit corrective plans or appeal the penalty.

Most people laid off in a recession turn to unemployment insurance (UI) for income security. However, UI may not provide a sufficient cushion for those at the low end of the skill distribution.[1] Most state UI programs replace less than 50 percent of earnings for a maximum of 26 weeks whereas welfare benefits may be received for up to two years in most states.[2] Moreover, individuals on welfare automatically become eligible for food stamps and Medicaid. Research is needed to understand how best to administer benefits to those who are at risk of going on welfare when the economy enters a downturn, and how to help those who turn to welfare find work when the recession ends.

[1] If there is a stigma attached to receiving welfare, individuals may choose UI if the dollar difference in benefits is not too large.

[2] In South Carolina, individuals may receive welfare benefits for up to 24 months in any 10-year period.

References

Burke, Vee and Melinda Gish. *Welfare Reform: Work Trigger Time Limits, Exemptions and Sanctions Under TANF*. Congressional Research Service, 98-697 (August 1998).

Burtless, Gary. "The Economist's Lament: Public Assistance in America." *Journal of Economic Perspectives* 4 (Winter 1990): 57-78.

Gallagher, L. Jerome et. al. "One Year After Federal Welfare Reform: A Description of State Temporary Assistance for Needy Families (TANF) Decisions as of October 1997. The Urban Institute (May 1998).

Moffitt, Robert. "Incentive Effects of the U.S. Welfare System: A Review." *Journal of Economic Literature* XXX (March 1992): 1-61.

Rector, Robert E. and Sarah E. Youssef. "The Determinants of Welfare Caseload Decline." Heritage Center for Data Analysis (May 1999).

Stapleton, David et. al. "Determinants of AFDC Caseload Growth." Lewin Group Research Paper (1997).

Wallace, Geoffey and Rebecca M. Blank. "What Goes Up Must Come Down? Explaining Recent Changes in Public Assistance Caseloads." Paper prepared for the conference, *Welfare Reform and the Macroeconomy*, sponsored by the Joint Center for Poverty Research.

Ways and Means Committee, House of Representatives. *The Green 1998 Book* (WMCP-105-7 can be found at **http://www.house.gov/ways-means/publica.htm**) (1998).